

WALLER LANSDEN DORTCH & DAVIS

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RECEIVED BY MAIL

1999 NOV 24 PM 4 20

EXECUTIVE SECRETARY

809 SOUTH MAIN STREET
P. O. BOX 1035
COLUMBIA, TN 38402-1035
(931) 388-6031

November 24, 1999

Via Hand-Delivery

K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Application of Memphis Networx, LLC for a Certificate of Public Convenience and Necessity to Provide Intrastate Telecommunication Services and Joint Petition of Memphis Light Gas & Water Division, a Division of the City of Memphis, Tennessee ("MLGW") and A&L Networks-Tennessee, LLC ("A&L") for Approval for Agreement Between MLGW and A&L regarding Joint Ownership of Memphis Networx, LLC

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of the above referenced Application and Joint Petition and a check for \$25.00 for the filing fee. Exhibits H and J to the Application and Joint Petition contain **confidential** financial information and are filed under seal. We respectfully request that these documents be treated as confidential and not disclosed to the public.

Please contact me if you need additional information.

Sincerely,



D. Billye Sanders

DBS:lmb
w/Enclosures

cc: John Knox Walkup, Esq.
J. Maxwell Williams, Esq.
Ward Huddleston, Esq.

CK# 101578
JS

WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

K. David Waddell
November 24, 1999
Page 2

bcc: Charlotte Knight Griffin, Esq.
Larry Thompson
Wade Stinson
Jerry Freeman
Mark W. Smith, Esq.
Bill Carriger, Esq.
Alex Lowe
Ron Langstaff, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

NOV 24 PM 4 20

IN RE: APPLICATION OF MEMPHIS
NETWORK, LLC FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND)
NECESSITY TO PROVIDE INTRASTATE)
TELECOMMUNICATIONS SERVICES)
AND JOINT PETITION OF MEMPHIS)
LIGHT GAS AND WATER DIVISION,)
A DIVISION OF THE CITY OF MEMPHIS,)
TENNESSEE ("MLGW") AND A&L)
NETWORKS-TENNESSEE, LLC ("A&L"))
FOR APPROVAL OF AGREEMENT)
BETWEEN MLGW AND A&L REGARDING)
JOINT OWNERSHIP OF MEMPHIS)
NETWORK, LLC)

DOCKET NO.

99-00909

APPLICATION AND JOINT PETITION

Memphis Networkx, LLC ("Applicant") submits this Application pursuant to T.C.A. § 65-4-201 et seq., T.C.A. § 7-52-103(d) and T.C.A. § 7-52-401 et seq. for a Certificate of Public Convenience and Necessity ("CCN") to provide intrastate intraLATA local exchange telecommunications services, in Tennessee. In conjunction with this Application, the members (owners) of Memphis Networkx, Memphis Light, Gas & Water Division, a division of the City of Memphis, Tennessee ("MLGW"), and A&L Networks-Tennessee, LLC, a Kansas limited liability company ("A&L"), seek approval of the Operating Agreement of Memphis Networkx, pursuant to T.C.A. §7-52-103(d) (the "Joint Petition").

In support of this Application and Joint Petition, Memphis Networx submits the following information.

1. The full name and address of the principal place of business of the Applicant are:

Memphis Networx, LLC
7555 Appling Center Drive
Memphis, Tennessee 38133-5069
Telephone: (901) 213-5112
Facsimile: (901) 371-0829

2. Questions regarding this Application and Joint Petition should be addressed to:

D. Billye Sanders, Esq.
Waller Lansden Dortch & Davis,
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219-8966
Telephone: (615) 244-6380
Facsimile: (615) 244-6804

3. All correspondence and notices regarding this Application and Joint Petition should be addressed to:

D. Billye Sanders, Esq.
Waller Lansden Dortch & Davis,
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219-8966
Telephone: (615) 244-6380
Facsimile: (615) 244-6804

John Knox Walkup, Esq.
Wyatt, Tarrant & Combs
511 Union Street, Suite 1500
Nashville, Tennessee 37219-1750
Telephone: (615) 244-0020
Facsimile: (615) 256-1726

Ward Huddleston,
Chief Manager
Memphis Networx, LLC
7555 Appling Center Drive
Memphis, Tennessee 38133-5069
Telephone: (901) 213-5112
Facsimile: (901) 371-0829

and

J. Maxwell Williams, General Counsel
Memphis Light Gas & Water Division
220 South Main Street
Memphis, Tennessee 38103
Telephone: (901) 528-4343
Facsimile: (901) 528-4991

4. Questions concerning the ongoing operations of Memphis Networx following certification should be directed to:

Ward Huddleston,
Chief Manager
Memphis Networx, LLC
7555 Appling Center Drive
Memphis, Tennessee 38133-5069
Telephone: (901) 213-5112
Facsimile: (901) 371-0829

5. Memphis Networx is a board-managed limited liability company organized under the laws of the state of Tennessee. Attached as Exhibit A is a list of the Board of Governors of Memphis Networx and a list of the officers of Memphis Networx. A copy of Memphis Networx's, Articles of Organization is attached as Exhibit B to this Application and Joint Petition. Memphis Networx's, agent for service of process in Tennessee is:

WT& C Corporate Services, Inc.
1500 Nashville City Center
511 Union Street
Nashville, Tennessee 37219

6. Ownership of Memphis Networx. Memphis Networx has two members. They are MLGW and A&L. MLGW was created by Chapter 381 of the Private Acts of 1939 amending the charter of the City of Memphis and giving MLGW authority over municipal utility systems. MLGW currently operates a municipal electric system, as well as municipal gas and water distribution systems. A&L is a Kansas limited liability company and is a wholly owned subsidiary of A&L Networks, LLC, a Kansas limited liability company. A copy of the Articles of Organization of A&L is attached as Exhibit C. The MLGW Board of Commissioners has approved establishment of a telecommunications division within the MLGW electric division and pursuant to T.C.A. § 7-52-103(d), further approved the establishment of an entity to provide telecommunications services jointly with others. Copies of the resolutions of MLGW's Board of Commissioners establishing a telecommunications division, approving the establishment of a telecommunications entity, and approving a loan from the MLGW Electric Division to the MLGW Telecommunications Division are attached as Exhibit D. Subject to TRA approval, MLGW and A&L have entered into an Operating Agreement, dated as of November 8, 1999, which sets forth their agreement with respect to ownership and operation of Memphis Networx (the "Operating Agreement"). MLGW and A&L seek approval of the Operating Agreement pursuant to T.C.A. § 7-52-103(d) in conjunction with this Application. A copy of the Operating Agreement is attached as Exhibit E.

Memphis Networx is not authorized to provide telecommunications services in any other state, nor has it applied for such authority.

Memphis Networkx has not been involved in any pertinent mergers or acquisitions.

7. Proposed Telecommunications Services. Memphis Networkx intends to provide wholesale local exchange telecommunication services to carriers, including competitive local exchange carriers, incumbent local exchange carriers, as well as retail local exchange telecommunications services to end users. Memphis Networkx will provide local services over its own facilities as well as facilities of other carriers. Memphis Networkx also seeks authority to resell intraLATA local exchange and interLATA exchange services in Tennessee. The proposed services of Memphis Networkx include, but are not limited to the following:

- Digital Signaling Zero (DS0): Voice Grade and Digital Grade
- Dedicated DS1 and DS3
- Optical Carrier (OC) 3 and OC12
- Asynchronous Transfer Mode (ATM)
- Frame Relay Service
- Switched Transport
- Switched Feature Group D
- Toll Free Dialing
- Centrex
- Custom Calling Features
- Asymmetric Digital Subscriber Line (ADSL)
- 911 and E911 emergency service
- White page directory listings and directory assistance
- Consumer access to and support for the Tennessee Relay Center
- Free Blocking for 900, 976 type services in accordance with TRA policy
- Lifeline and link-up to qualifying citizens
- Educational discounts consistent with TRA policy

Initially, Memphis Networkx will provide services to other carriers, internet service providers, and large commercial and governmental end users. Within 3 years of commencing operations, Memphis Networkx plans to serve small commercial

and residential customers. Subject to TRA approval, Memphis Networkx plans to begin construction in January of 2000 and begin providing service by May 2000.

Memphis Network's customers will not be required to purchase customer premise equipment (CPE) which is not compatible with the incumbent local exchange carriers' systems.

8. Proposed Territory. Initially, Memphis Networkx will provide services in Shelby County, Tennessee in the exchanges of BellSouth Telecommunications, Inc. ("BellSouth"). In the future it intends to expand its services throughout the state of Tennessee. Except as may be allowed by state or federal law, Memphis Networkx will not offer service in areas currently being served by an incumbent local telephone company with fewer than 100,000 access lines, as described in T.C.A. § 65-4-201(d).

9. Managerial, Technical and Financial Qualifications. Memphis Networkx has sufficient managerial, technical and financial abilities to provide the proposed services.

A. Managerial Qualifications. Memphis Networkx's managers have the requisite managerial experience necessary to provide the telecommunications services Memphis Networkx proposes to offer. Ward Huddleston, Jr. will serve as Chief Manager of Memphis Networkx. Mr. Huddleston has over 16 years of experience working for major telecommunications providers as well as start-up telecommunication projects. His resume is included in Exhibit F. David Ori will serve as Secretary and Chief Financial Officer of Memphis Networkx. He has over 20

years financial and operational experience. David Ori's resume is included in Exhibit F.

During the start-up phase of Memphis Networkx's operations, Memphis Networkx will utilize consultants from the firm of Arthur D. Little, Inc. ("ADL") to assist Mr. Huddleston and Mr. Ori. ADL has extensive expertise in the management of telecommunications businesses, including business process, organizational development, strategy development, marketing and technology issues. (See additional information on ADL in Exhibit F.) A core team from ADL will be assigned to the Memphis Networkx project. This management team consists of Joel Halvorson, Jerry Freeman and Barbara LaRue, whose resumes are included in Exhibit F of this Application. In addition to these persons, subject matter experts in the area of technology and business management will be available to Memphis Networkx from ADL on an as needed basis.

Ed Horrell, a consultant with Horrell Communications will serve as head of marketing and lead Memphis Networkx's marketing efforts. Mr. Horrell's resume is included in Exhibit F.

MLGW and Memphis Networkx will have no common employees. All transactions with affiliates of Memphis Networkx will be at arms length at market rates.

B. Technical Expertise. Memphis Networkx has the requisite technical expertise to provide the services it proposes to offer. James R. "Randy" McDaniel will serve as Manager of Engineering for Memphis Networkx. Randy

McDaniel has 27 years of experience in the technological area of the telecommunications industry. His resume is included in Exhibit G.

During the start-up phase of Memphis Network's operations, technical experts from ADL, including Roger M. Hay and Pat White, as well as Greg Fowler from Nortel Networks will be available to assist Memphis Network's technical support team. Their resumes are included in Exhibit G. In addition, Nortel Networks will provide the required electronic communications equipment for the implementation of the network. Nortel will also dedicate a full-time project manager to Memphis Network. Experts from Nortel's product area and professional services group will be available to Memphis Network on a part-time basis. General information regarding Nortel Networks is included in Exhibit G.

Contactica, Inc., a subsidiary of ADL, will provide expertise in the design, engineering and construction of the communications network. Frank Wye of Contactica will be assigned to Memphis Network. Mr. Wye's resume is included in Exhibit G. Additional resources will be made available from Contactica as needed.

C. Financial Capability. Memphis Network has the financial capability to provide the services it proposes to offer. MLGW and A&L have agreed to provide equity funding to Memphis Network as set forth in Article 9 of the Operating Agreement (See Exhibit E). Attached as **CONFIDENTIAL** Exhibit H are pro forma financial statements of Memphis Network for three years which are offered to demonstrate the Applicant's financial ability to provide the proposed services. Included in **CONFIDENTIAL** Exhibit H is a three-year capital budget

outlining the specific equipment to be deployed, the location of deployment and its cost.

Attached as Exhibit I are the 1998 audited financial statements of MLGW and the June 30, 1999 financial statements of MLGW. A&L is a recently formed subsidiary of A&L Networks, LLC and as such does not yet have a financial history. Attached as **CONFIDENTIAL** Exhibit J are the June 30, 1999 financial statements of A&L Networks, LLC, the parent of A&L.

10. IntraLATA Toll Dialing Parity Plan. Attached as Exhibit K is Memphis Networkx's intraLATA toll dialing parity plan.

11. Repair and Maintenance/Customer Service Information. Memphis Networkx will maintain a toll-free number for repairs/maintenance service, which will be available 24 hours/day, 7 days /week. Memphis Networkx will also maintain a toll-free number for customer service, which will be available 24 hours/day, 7 days/week. Customers wishing to communicate with a Memphis Networkx customer service representative in writing should refer correspondence to the address set forth in Section 4 of this Application.

12. Adherence to TRA Rules. Memphis Networkx will adhere to the rules, policies and orders of the Tennessee Regulatory Authority regarding the provision of telecommunications services.

13. Small and Minority-Owned Telecommunications Business Participation Plan. Attached as Exhibit L is Memphis Networkx's Small and

Minority-Owned Telecommunications Business Participation Plan, which is submitted pursuant to the requirements of T.C.A. § 65-5-212.

14. Franchises, etc. Memphis Networkx does not currently hold any franchises from any local government for the provision of telecommunications services. Applicant will, as necessary, obtain such local franchises, permits or licenses in accordance with applicable law, and submit such franchises to the TRA for approval pursuant to T.C.A. § 65-4-107.

15. Interconnection Agreements and Equal Access. Memphis Networkx will enter into interconnection agreements with BellSouth and other carriers, as needed, and will seek approval of such agreements by the TRA. Memphis Networkx will provide equal access to its network to IntraLATA and IntraLATA long distance providers.

16. Tariffs. Memphis Networkx will file tariffs with the TRA and obtain required approval prior to beginning service. Information regarding non-recurring charges and customer deposits, if any, will be contained in Memphis Networkx tariffs.

17. Accounting. Memphis Networkx intends to keep its books in accordance with Generally Accepted Accounting Principles ("GAAP").

18. Y2K Compliance. Memphis Networkx has no current operations. Subject to TRA approval, its operations will begin in the year 2000. Therefore, it will have the advantage of being able to test equipment after December 31, 1999

when Y2K issues are more readily identifiable and the readiness of companies with which it will interconnect can be ascertained.

19. Pre-filed Testimony. Notarized, pre-filed testimony will be submitted prior to the hearing on this Application and Joint Petition.

20. Notice. Notice of this Application and Joint Petition will be served upon incumbent local exchange carriers, competing telecommunications providers and interexchange carriers certified to provide service in the state of Tennessee and other interested parties, as provided to Applicant by the TRA and listed in the attached Certificate of Service.

21. Public Interest. Approval of this Application and Joint Petition will serve the public interest by creating greater competition in the intrastate telecommunications market place by providing a telecommunications network that can be used by various telecommunications providers as well as end users. Granting of this Application will be in keeping with the legislature's declaration of telecommunications service policy set forth in T.C.A. § 65-4-123.

CONCLUSION

For the foregoing reasons, MLGW, A&L and Memphis Networkx request that the Tennessee Regulatory Authority set this matter for hearing and following the hearing issue an order approving the Operating Agreement between MLGW and A&L and granting a Certificate of Public Convenience and Necessity to Memphis Networkx to operate as a competing telecommunications service provider


within the state of Tennessee and grant such other relief to which Applicant and its owners may be entitled.

Respectfully submitted,

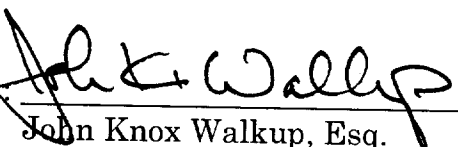
MEMPHIS NETWORX, LLC (Applicant)

**MEMPHIS LIGHT GAS AND WATER
DIVISION (Joint Petitioner)**

**A&L NETWORKS-TENNESSEE, LLC
(Joint Petitioner)**

By: 
D. Billye Sanders, Esq.
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
Nashville City Center
511 Union Street, Suite 2100
Nashville, Tennessee 37219-8966
(615) 244-6380

Attorney for MLGW and
Memphis Networx, LLC

By: 
John Knox Walkup, Esq.
Wyatt, Tarrant & Combs
511 Union Street, Suite 1500
Nashville, Tennessee 37219-1750
(615) 244-0200

Attorney for A&L and Memphis
Networx, LLC

List of Exhibits

Exhibit A	Board of Governors and Officers of Memphis Networkx
Exhibit B	Memphis Networkx Articles of Organization
Exhibit C	A&L Articles of Organization
Exhibit D	Resolutions of MLGW's Board of Commissioners approving establishment of a telecommunications entity, establishment of a Telecommunications Division, establishment of a joint venture with others and a loan from MLGW Electric Division to MLGW Telecommunications Division
Exhibit E	Memphis Networkx Operating Agreement
Exhibit F	Resumes of Key Managers
Exhibit G	Resumes of Key Technical Personnel
Exhibit H	3-year Pro Forma Financial Statements and Capital Budget of Memphis Networkx - CONFIDENTIAL
Exhibit I	1998 Audited Financial Statements of MLGW and June 30, 1999 Financial Statements of MLGW
Exhibit J	September 30, 1999 Financial Statements of A&L Networks, LLC - CONFIDENTIAL
Exhibit K	IntraLATA Toll Dialing Parity Plan
Exhibit L	Small and Minority-Owned Telecommunications Business Participation Plan

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE: APPLICATION OF MEMPHIS)
NETWORK, LLC FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND)
NECESSITY TO PROVIDE INTRASTATE)
TELECOMMUNICATIONS SERVICES)
AND JOINT PETITION OF MEMPHIS)
LIGHT GAS AND WATER DIVISION,)
A DIVISION OF THE CITY OF MEMPHIS,)
TENNESSEE ("MLGW") AND A&L)
NETWORKS-TENNESSEE, LLC ("A&L"))
FOR APPROVAL OF AGREEMENT)
BETWEEN MLGW AND A&L REGARDING)
JOINT OWNERSHIP OF MEMPHIS)
NETWORK, LLC)

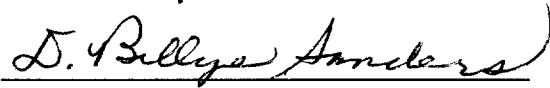
DOCKET NO. _____

NOTICE OF FILING OF APPLICATION AND JOINT PETITION

Pursuant to T.C.A. §65-4-201, Memphis Networkx, LLC hereby serves notice of its filing with the Tennessee Regulatory Authority (TRA) of an application for a certificate of public convenience and necessity to provide competing facilities-based and resold local telecommunications services in Tennessee;¹ and Memphis Light Gas and Water Division and A & L Networks–Tennessee, LLC hereby serve notice of filing with the TRA of their joint petition for approval of the operating agreement of Memphis Networkx, pursuant to T.C.A. § 7-52-103(d), on this the 24th day of November, 1999. Copies of the Application and Joint Petition, excluding any

¹ Initially, Memphis Networkx will provide services in Shelby County, Tennessee in the exchanges of BellSouth Telecommunications, Inc. In the future it intends to expand its services throughout the state of Tennessee. Except as may be allowed by state or federal law, Memphis Networkx will not offer service in areas currently being served by an incumbent local telephone company with fewer than 100,000 access lines, as described in T.C.A. § 65-4-201(d).

confidential exhibits, are available from the TRA, as well as from the office of D. Billye Sanders, Esq., Waller Lansden Dortch & Davis, 511 Union Street, Suite 2100, Nashville, Tennessee 37219.



D. Billye Sanders, Esq.
WALLER, LANSDEN, DORTCH & DAVIS
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219
(615) 244-6380

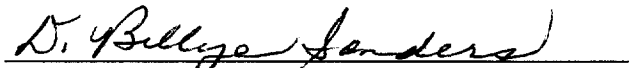
Attorney for MLGW and Memphis Networkx,
LLC

John Knox Walkup, Esq.
Wyatt, Tarrant & Combs
511 Union Street, Suite 1500
Nashville, Tennessee 37219-1750
(615) 244-0200

Attorney for A&L and Memphis
Networkx, LLC

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Notice of Filing of Application and Joint Petition has been served on the attached list of incumbent local exchange telephone companies and other interested parties by depositing same in the U.S. Mail, postage prepaid, on this 24th day of November, 1999.


D. Billye Sanders

Incumbent Local Exchange Service Providers
Certified in Tennessee

Ardmore Telephone Company, Inc.

Terry Wales, General Manager

517 Ardmore Avenue

P. O. Box 549

Ardmore, TN 38449

(205) 423-2131

(205) 423-2208 (Fax)

BellSouth

Guy Hicks, General Counsel

333 Commerce Street

Nashville, TN 37201-3300

(615) 214-3800

(615) 214-8820 (Fax)

Century Telephone of Adamsville

David Dickey, Division Manager

116 N. Oak Street

P. O. Box 405

Adamsville, TN 38310

(901) 632-3311

(901) 632-0232 (Fax)

Century Telephone of Claiborne

Don Ray Fannon, Division Manager

507 Main Street

P. O. Box 100

New Tazewell, TN 37825

(423) 626-4242

(423) 626-5224 (Fax)

Century Telephone of Ooltewah-Collegedale, Inc.

Terry Crutchfield, Division Manager

5616 Main Street

P. O. Box 782

Ooltewah, TN 37363

(423) 238-4102

(423) 238-5699 (Fax)

**Citizens Telecommunications Company of
Tennessee d/b/a Citizens Communications Company**

Alice Camuti, Director
250 South Franklin Street
P. O. Box 689
Cookeville, TN 38501
(931) 528-0518
(931) 528-0604 (Fax)

Loretto Telephone Company, Inc.

Louise Brown, President
P. O. Box 130
Loretto, TN 38469
(931) 853-4351
(931) 853-4329 (Fax)

Millington Telephone Company, Inc.

W. S. Howard, President
4880 Navy Road
Millington, TN 38053
(901) 872-3311
(901) 873-0022 (Fax)

Sprint-United

Steve Parrott, Director-Regulatory Affairs
United Telephone Southeast, Inc.
14111 Capital Boulevard
Wake Forest, NC 27587-5900
(919) 554-7039
(800) 733-9045 customer contact #

TDS Telecom-Concord Telephone Exchange, Inc.

Jerry R. Parkerson, Manager
701 Concord Road
P. O. Box 22610
Knoxville, TN 37933-0610
(423) 966-5828
(423) 966-9000 (Fax)

TDS Telecom-Humphreys County Telephone Company

Bernard R. Arnold, Manager
203 Long Street
P. O. Box 552
New Johnsonville, TN 37134-0552
(913) 5351-2200
(931) 535-3309 (Fax)

TDS Telecom-Tellico Telephone Company, Inc.

Carl Lester, Manager

102 Spence Street

P. O. Box 9

Tellico Plains, TN 37385-0009

(423) 671-4600

(423) 253-7080 (Fax)

TDS Telecom-Tennessee Telephone Company

P. O. Box 18139

Knoxville, TN 37928-2139

(423) 922-3535

(423) 922-9515 (Fax)

TEC-Crockett Telephone Company, Inc.

P. O. Box 7

Friendship, TN 38034

(901) 677-8181

TEC-People's Telephone Company, Inc.

P. O. Box 310

Erin, TN 37061

(913) 289-4221

(913) 289-4220 (Fax)

TEC-West Tennessee Telephone Company, Inc.

244 E. Main Street

P. O. Box 10

Bradford, TN 38316

(901) 742-2211

(901) 742-2212 (Fax)

United Telephone Company

120 Taylor Street

P. O. Box 38

Chapel Hill, TN 37034

(931) 364-2289

(931) 364-7202 (Fax)

Citizens Communications Company of the Volunteer

State d/b/a Citizens Communications Company

Mike Swatts

300 Bland Street

P. O. Box 770

Bluefield, WV 24701

(304) 325-1216

Facilities-Based Long Distance Carriers (InterLATA)
and Competing Local Telecommunications Service
Providers Certified in Tennessee

AT&T Communications

Gary Andraza, Assistant Vice President Government Affairs
511 Union Street, Suite 1010
Nashville, TN 37219
(615) 242-2815
(800) 222-0300 customer contact #

MCI Telecommunications Corporation

Kathy Pounds, Director, Law and Public Policy
780 Johnson Ferry Road, Suite 700
Atlanta, GA 30342
(404) 250-5500
(615) 742-2400 customer contact #

Sprint Communications Company, L.P.

Tony Key, Director, State Regulatory
3100 Cumberland Circle
Atlanta, GA 30339
(404) 649-5144
(800) 767-7759 customer contact #

ACI Corp.

P. O. Box 198062
Nashville, TN 37219

ALEC, Inc.

222 Kentucky Avenue, Suite 1
Paducah, KY 42002
(502) 422-5363

Alltel Communications, Inc.

One Allied Drive
Little Rock, AR 72202
(501) 905-5692

American Communications Services, Inc. (ACSI)

131 National Business Parkway, Suite 100
Annapolis Junction, MD 20701
(301) 617-4200

BellSouth BSE, Inc.

1100 Peachtree Street, N.W., Suite 500
Atlanta, Georgia 30309-4599
(404) 249-2080

Ben Lomand Communications, Inc.

111 Smithville Highway
McMinnville, TN 37110
(931) 668-1010

BlueStar Networks, Inc.

131 2nd Avenue North, Fifth Floor
Nashville, TN 37201
(615) 255-2100

Brooks Fiber Communications of TN, Inc.

800 South Gay Street, Suite 1800
Knoxville, TN 37924
(423) 521-9988

BTI Communications, Inc.

4300 Six Forks Road
P. O. Box 150002
Raleigh, NC 27624

Citizens Communications Company

Mike Swatts
300 Bland Street
P. O. Box 770
Bluefield, WV 24701
(304) 325-1216

Comm. Depot, Inc.

889 Bendix Drive
Jackson, TN 38301
(901) 426-1650

DeltaCom, Inc.

113 South Main Street
P. O. Box 1233
Arab, AL 35016
(205) 586-2715

Digital Teleport, Inc.

8112 Maryland Avenue, 4th Floor
St. Louis, MO 63105

DSL Net Communications, LLC

545 Long Wharf Drive, 5th Floor
New Haven, CT 06511

Electric Power Board of Chattanooga

536 Market Street
Chattanooga, TN 37402
(423) 757-1484 Mr. Harold E. DePriest
(423) 757-1291 Mr. Ronald N. Fugatt

Global NAPS Gulf, Inc.

10 Merrymount Road
Quincy, VA 02169
(617) 507-5100

GTE Communications Corp.

1200 Walnut Hill Lane
Irving, TX 75038
(972) 717-8373

Hyperion of Tennessee, L.P.

Washington Square, Suite 422
222 Second Avenue North
Nashville, TN 37219
(615) 259-4961

ICG Telecom Group, Inc.

2100 West End Avenue, Suite 620
Nashville, TN 37203
(615) 251-4440

Intermedia Communications

3625 Queen Palm Drive
Tampa, FL 33619-1309
(800) 940-0011

Interpath Communications, Inc.

1700 Perimeter Park, Suite 100
Morrisville, NC 25760
(919) 388-6265

LCI International Telecom Corp.

8180 Greensboro Drive, Suite 800
McLean, Virginia 22101
(703) 363-0220

Level 3 Communications, LLC

1450 Infinite Drive
Louisville, KY 80027
(303) 926-3000 Terrence J. Ferguson

LoadPoint Telecommunications, LLC

Three Maryland Farms, Suite 320
Brentwood, TN 37027-5005
(615) 371-1625

Logix Communications Corporation

13429 N. Broadway Extension, Suite 200
Oklahoma City, OK 73114

MFS Intelenet of Tennessee, Inc.

515 East Amite Street, 4th Floor
Jackson, MS 39201

MCIMetro Access Transmission Services, Inc.

780 Johnson Ferry Road, #700
Atlanta, GA 30342
(770) 284-5492

Metropolitan Fiber Systems of Tennessee, Inc.

Claire Daily, Director Legislative & Regulatory Affairs
201 Energy Parkway, Suite 200
Lafayette, LA 70508
(800) 489-8031

Network Plus, Inc.

234 Copeland Street
Quincy, MA 02169

New South Communications, LLC

355 Woodruff Road
Greenville, SC 29607
(864) 627-5050

NEXTLINK Tennessee

105 Molloy Street, Suite 300
Nashville, TN 37201
(615) 777-7777

SouthEast Telephone LTD

317 Main Street, 4th Floor
Pikeville, KY 41501
(606) 432-3000

Teligent, Inc.

8065 Leesburg Pike, Suite 400
Vienna, VA 22182
(703) 762-5143

Time Warner

P.O. Box 210706
Nashville, TN 37221

US LEC of Tennessee

212 South Tryon Street, Suite 1540
Charlotte, NC 28281
(704) 319-1000

US West Interprise America, Inc.

1999 Broadway, Suite 700
Denver, CO 80202
(303) 293-6326

WinStar Communications of TN, Inc.

7799 Leesburg Pike, Suite 401 South
Tyson's Corner, VA 22043
(703) 917-6556

WorldCom Technologies, Inc. (LDDS)

Claire Daily, Director Legislative & Regulatory Affairs
201 Energy Parkway, Suite 200
Lafayette, LA 70408
(800) 489-8031
(318) 261-2552
(318) 261-2564 (Fax)

NA Communications, Inc.

234 W. Valley Drive
Abingdon, VA 24210

Hyperion Communications of Tennessee, L.P.

DDI Plaza Two
500 Thomas Street, Suite 400
Bridgeville, PA 15017

PV Tel of Tennessee, LLC

1009 Radcliff Avenue
Kingsport, TN 37664
(423) 378-4007

Frontier Local Services, Inc.

180 S. Clinton Avenue
Rochester, NY 14646-0700
(716) 777-1000

KMC Telecom III, Inc.

1545 Route 206, Suite 300
Bedminster, NJ 07921-2567
(908) 470-15445

Network Access Solutions, Inc.

100 Carpenter Drive, Suite 206
Sterling, VA 20164
(703) 742-7700

Williams Communications, Inc. d/b/a Vyvx, Inc.

2600 One Williams Center
Tulsa, OK 74172
(918) 573-6000
(918) 573-0669 (Fax)

Kentucky Data Link

8829 Bon Street
Overland Park, KS 66214

Aeneas Communications, LLC

301 S. Church Street
Jackson, TN 38031
901-425-9200

Other Interested Parties

Office of the Consumer Advocate
450 James Robertson Parkway
Nashville, TN 37243

EXHIBIT A

Board of Governors of Memphis Network

Herman Morris – President and Chief Executive Officer, MLGW

John McCullough - Chief Financial Officer, MLGW

J. Maxwell Williams - General Counsel, MLGW

Alex Lowe - Manager, A&L Networks-Tennessee, LLC

Ed Powell - Chief Executive Officer, A&L Networks, LLC

Officers of Memphis Network

Ward Huddleston - Chief Manager

David Ori - Secretary and Chief Financial Officer

EXHIBIT B

Secretary of State

Corporations Section

James K. Polk Building, Suite 1800

Nashville, Tennessee 37243-0306

DATE: 11/08/99

REQUEST NUMBER: 3765-0261

TELEPHONE CONTACT: (615) 741-2286

FILE DATE/TIME: 11/08/99 1540

EFFECTIVE DATE/TIME: 11/08/99 1540

CONTROL NUMBER: 0379620

TO:

WYATT, TARRANT & COMBS, ATTYS
1500 NASHVILLE CITY
CENTER/IMPREST ACCT
NASHVILLE, TN 37219-1750

RE:

MEMPHIS NETWORK, LLC
ARTICLES OF ORGANIZATION -
LIMITED LIABILITY COMPANY

CONGRATULATIONS UPON THE FORMATION OF THE LIMITED LIABILITY COMPANY IN THE STATE OF TENNESSEE WHICH IS EFFECTIVE AS INDICATED ABOVE.

A LIMITED LIABILITY COMPANY ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DAY OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE LIMITED LIABILITY COMPANY'S FISCAL YEAR. ONCE THE FISCAL YEAR HAS BEEN ESTABLISHED, PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE LIMITED LIABILITY COMPANY AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE LIMITED LIABILITY COMPANY TO ADMINISTRATIVE DISSOLUTION.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE LIMITED LIABILITY COMPANY CONTROL NUMBER GIVEN ABOVE. PLEASE BE ADVISED THAT THIS DOCUMENT MUST ALSO BE FILED IN THE OFFICE OF THE REGISTER OF DEEDS IN THE COUNTY WHEREIN A LIMITED LIABILITY COMPANY HAS ITS PRINCIPAL OFFICE IF SUCH PRINCIPAL OFFICE IS IN TENNESSEE.

FOR: ARTICLES OF ORGANIZATION -
LIMITED LIABILITY COMPANY

ON DATE: 11/08/99

FROM:
WYATT TARRANT & COMBS (NASHVILLE CITY CT
1500 NASHVILLE CITY
CENTER, 511 UNION
NASHVILLE, TN 37219-1750

	FEES	
RECEIVED:	\$300.00	\$0.00
TOTAL PAYMENT RECEIVED:		\$300.00

RECEIPT NUMBER: 00002569949
ACCOUNT NUMBER: 00086973



Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE

FILED
RECEIVED
NOV 8 2009
RILEY DARNELL
SECRETARY OF STATE

ARTICLES OF ORGANIZATION

OF

Memphis Networx, LLC

Pursuant to the provisions of Section 48-205-101 of the Tennessee Limited Liability Company Act, the undersigned natural person, having the capacity to contact, executes and submits these Articles of Organization for the purposes of forming a limited liability company under the laws of the State of Tennessee to be known as Memphis Networx, LLC (the "Company"):

1. The name of the limited liability company is:

Memphis Networx, LLC

2. The street address of the Company's initial registered office and the name of the initial registered agent in the State of Tennessee is:

WT&C Corporate Services, Inc.
1500 Nashville City Center
511 Union Street
Nashville, Davidson County, Tennessee 37219-1750

3. The street address of the principal executive offices of the Company is:

7555 Appling Center Drive
Memphis, Tennessee 38133-5069

4. There were two (2) Members of the Company as of the date of the filing of these Articles

5. The initial Members admitted to the Company are A&L Networks-Tennessee, LLC and Memphis Light, Gas, and Water Division, a division of the City of Memphis, Tennessee.

6. The name and address of the organizer of the Company is:

RECEIVED
99 NOV -3 PM 3:40
NICHOLSON
SECRETARY OF STATE

John Knox Walkup
WYATT, TARRANT & COMBS
1500 Nashville City Center
511 Union Street
Nashville, Davidson County, Tennessee 37219-1750

7. The Company will be board managed.

8. All deeds, mortgages, bonds, contracts or other instruments must be signed by the Chief Manager or by any other Manager with the approval of the Members to be binding upon the Company.

9. The Secretary may certify the identity of each of the Company's Managers, Governors, and Members and may provide certified copies or extracts of resolutions adopted from time to time by the Company's Board of Governors or its Members. All persons shall be entitled to rely upon the contents of such certificates and no person shall have any duty to inquire into whether the contents of any such certificate is valid.

10. The transfer or assignment of a Member's Interest may be limited or restricted by the Company's Operating Agreement or an agreement among the Members.

11. The Operating Agreement may specify that none or less than all of the events listed in Section 48-245-101(a)(5)(A)-(K) of the Act shall constitute Dissolution Events.

12. Initially, the sole business purpose of the Company shall be to do or cause to be done such acts or things as reasonably necessary to seek and obtain regulatory approval for the Company to provide the services authorized by Tennessee Code Annotated Sections 7-52-401, *et seq.* Subject to obtaining, and only to the extent permitted by, the necessary regulatory approvals, the business of the company shall be to (i) provide the services authorized by Tennessee Code Annotated Sections 7-52-401, *et seq.*, (ii) acquire, construct, own, improve, operate, lease, maintain, sell, mortgage, pledge, and otherwise deal and trade in, any related system, plant, equipment or other property, and (iii) exercise all rights and powers and engage in all activities related to the foregoing and legally permissible under the Act.

13. To the fullest extent provided under the Act, no Member, Governor, Manager, or agent of the Company shall have any personal responsibility or liability for the obligations or acts of the Company or any other Member, Governor, Manager or agent of the Company.

14. The Company shall have all of the powers available to it under the Tennessee Limited Liability Company Act.

15. All terms as used in these Articles shall have the meanings provided in the Operating Agreement.

RECEIVED
IN WITNESS WHEREOF, these Articles of Organization have been executed on this 8th
day of November, 1999.

JOHN KNOX WALKUP
SECRETARY OF STATE

By:

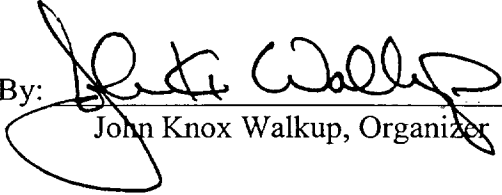

John Knox Walkup, Organizer

EXHIBIT C

Ron Thornburgh
Secretary of State



2nd Floor, State Capitol
300 S.W. 10th Ave.
Topeka, KS 66612-1594
(785) 296-4564

September 24, 1999

STATE OF KANSAS

SPENCER FANE BRITT BROWNE LLP
LORAN K SMITH JR
1000 WALNUT ST STE 1400
KANSAS CITY MO 64106 2140

RE: A & L NETWORKS-TENNESSEE, LLC

ID. # 2785657 (USE IN ALL CORRESPONDENCE WITH OUR OFFICE)

Enclosed is a certified copy of your Kansas limited liability company articles of organization. Your limited liability company's identification number is at the top of this page. The identification number should be used in all correspondence with this office.

Every limited liability company must file an annual report with this office. However, if a limited liability company has not been organized for six months prior to its first tax year end, a report is not required for that year. If your limited liability company operates on a tax period other than the calendar year, you must notify our office in writing prior to December 31.

If an annual report is required, it must be filed when your limited liability company files its Kansas income tax return. If your limited liability company applies to the Internal Revenue Service for an extension of its deadline for filing its income tax return, an extension for the annual report will be granted by our office provided that a copy of the IRS extension form is filed with this office within 90 days after the due date of the annual report.

cjr

ARTICLES OF ORGANIZATION
OF
A & L NETWORKS-TENNESSEE, LLC

The undersigned, for the purpose of forming a limited liability company pursuant to the provisions of the Kansas Limited Liability Company Act, hereby executes the following Articles of Organization:

ARTICLE I

The name of the limited liability company is A & L Networks-Tennessee, LLC.

ARTICLE II

The address of the registered office of the limited liability company in the State of Kansas is 9401 Indian Creek Parkway, Suite 700, Overland Park, Kansas 66210, and the name of its initial registered agent at that address is Spenserv, Inc.

ARTICLE III

The period of duration of the limited liability company is perpetual.

ARTICLE IV

The purpose for which the limited liability company is organized is to conduct and promote any lawful business or purpose for which a limited liability company may be created under the laws of the State of Kansas.

ARTICLE V

The limited liability company may admit additional members upon the written consent of all of the original members.

ARTICLE VI

The limited liability company shall be managed by one or more managers, and the name and address of its initial manager is George A. Lowe, II, 201 East Loula Street, Post Office Box 878, Olathe, KS 66051-0878.

IN WITNESS WHEREOF, the undersigned, for the purpose of creating a limited liability company pursuant to the Kansas Limited Liability Company Act, hereby executes these Articles of Organization as of this 22nd day of September of the year 1999.

Loran K. Smith

Loran K. Smith, Jr., Organizer

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

The undersigned, a Notary Public, does hereby certify that on the 22nd day of September, 1999, personally appeared before me, Loran K. Smith, Jr., who being by me first duly sworn, declared that he is the person who signed the foregoing document as Organizer, and that the statements contained therein are true.

Cheryl A. Brogan

Notary Public

My Commission Expires:

CHERYL A. BROGAN
Notary Public - State of Missouri
Commissioned in Jackson County
My Commission Expires April 29, 2002

STATE OF MISSOURI SECRETARY OF STATE

NOTARY PUBLIC
My Commission Expires April 29, 2002
Walnut 510123.1

CERTIFICATE OF THE KANSAS SECRETARY OF STATE

Registration No. 2785657

I hereby certify the above and foregoing to be true and correct copy of the original filed with the Kansas Secretary of State. Certified on this date: Sep 24, 1999

RON THORNBURGH, Secretary of State

EXHIBIT D

4

EXCERPT
from
MINUTES OF MEETING OF BOARD OF LIGHT, GAS AND WATER COMMISSIONERS
CITY OF MEMPHIS
held
MARCH 4, 1999

* * * * *

The Supervisor of Purchasing requested the Board's consideration to initiate and establish a telecommunications entity by MLGW.

It was moved by Commissioner Guinn
seconded by Commissioner Morris

and unanimously carried:

THAT MLGW initiate and establish a telecommunications entity. The initial capitalization will be \$450,000 for professional fees and associated expenses.

I hereby certify that the foregoing is a true copy of
a resolution adopted by the Board of Light, Gas and
Water Commissioners at a regular meeting held on 4th day of March 19 99, at
which a quorum was present. This
of March 19 99
[Signature]
Secretary

EXCERPT
from
MINUTES OF MEETING
of
BOARD OF LIGHT, GAS AND WATER COMMISSIONERS
CITY OF MEMPHIS
held
AUGUST 19, 1999

The President submitted for approval of the Board authorization to establish a Telecommunications Division as a subdivision of the Electric Division.

WHEREAS, the Memphis Light, Gas and Water Division of the City of Memphis (MLGW) has completed its preliminary investigations into the feasibility of developing a telecommunications network through a telecommunications division of the electric division as a subdivision of the electric division of MLGW (the "Telecommunications Division") as authorized by the Board on March 4, 1999; and

WHEREAS, it is appropriate to establish the powers, duties and obligations of the Telecommunications Division.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Light, Gas and Water Commissioners, THAT:

1. The Telecommunications Division shall have all powers, authority, duties, responsibilities, and obligations as are now or may hereafter be provided by applicable law, all under the direction of the President and Chief Executive Officer, or his designee, including the authority to organize, create, manage, operate, either wholly or jointly with others, an entity to provide or perform those services authorized for the Telecommunications Division.

It was moved by Vice Chairman Guinn, seconded by

Commissioner . Graves and unanimously carried:

THAT, Authority to establish the powers, duties and obligations of the Telecommunications Division as a subdivision of the Electric Division of MLGW is granted.

I hereby certify that the foregoing is a true copy of
a resolution adopted by the Board of Light, Gas and
Water Commissioners at a regular ~~special~~ meeting
held on 19th day of August 19 44, at
which a quorum was present. This 19th day
of August 19 44

[Signature]
Secretary-Treasurer

EXCERPT
from
MINUTES OF MEETING
of
BOARD OF LIGHT, GAS AND WATER COMMISSIONERS
CITY OF MEMPHIS
held
AUGUST 19, 1999

The President submitted for approval of the Board authorization for a loan in an amount not to exceed \$20 million from the electric system to the Telecommunications Division, a subdivision of the Electric Division.

WHEREAS, the Memphis Light, Gas and Water Division of the City of Memphis (MLGW) has completed its preliminary investigations into the feasibility of developing a telecommunications network through a telecommunications division of the electric division of MLGW (the "Telecommunications Division") as authorized by the Board on March 4, 1999; and

WHEREAS, certain capital investments and certain expenditures will be required by the Telecommunications Division; and

NOW, THEREFORE, BE IT RESOLVED, by the Board of Light, Gas and Water Commissioners, THAT:

1. The President and Chief Executive Officer is authorized, but not required, to execute such documents and to take such further action as may be necessary to consummate a loan in an amount not to exceed \$20 million from the Division's electric system funds to the Telecommunications Division for the initial development, construction and operation of a telecommunications system and to provide the working capital necessary to provide such services, upon receipt of all regulatory approval.

2. The inter-division loan authorized under Section 1 of this resolution shall be made in accordance with the requirements of T.C.A. § 7-52-402 and the requirements of the TVA Wholesale Power Contract, and this authorization shall not create any further obligations or liabilities of the Division in favor of the Telecommunications Division.

3. Any increase in the monetary authorization above the amount specified in Section 1 hereof is reserved to the Board.

4. Pending the receipt of all regulatory approvals, the President and Chief Executive Officer shall be authorized, but not required, to make such expenditures as are prudent and necessary in furtherance of the powers granted in Section 3 of this resolution. Upon the receipt of all necessary regulatory approvals, such expenses shall be reimbursed from the inter-division loan authorized under Section 1 of this resolution.

It was moved by Vice Chairman Guinn, seconded by
Commissioner . Graves and unanimously carried:

THAT, Authority to loan an amount not to exceed \$20 million from the electric system to the Telecommunications Division, a subdivision of the Electric Division is granted.

I hereby certify that the foregoing is a true copy of
a resolution adopted by the Board of Light, Gas and
Water Commissioners at a regular ~~meeting~~ meeting
held on 19th day of August 1979 at
which a quorum was present. This 19th day
of August 1979

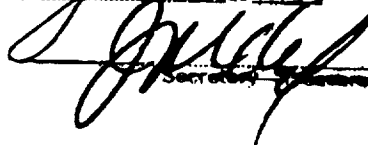

Secretary

EXHIBIT E

OPERATING AGREEMENT

OF

MEMPHIS NETWORKX, LLC

A TENNESSEE LIMITED LIABILITY COMPANY

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THIS OPERATING AGREEMENT of Memphis Networx, LLC (the "Company"), a limited liability company organized under the Tennessee Limited Liability Company Act, is hereby adopted and approved on this 8th day of November, 1999, by the undersigned Members of the Company, who agree as follows:

ARTICLE 1 DEFINITIONS

In addition to terms defined elsewhere in this Operating Agreement, the following terms used in this Operating Agreement shall have the following meanings:

1.1. "A&L" means A&L Networks-Tennessee, LLC, a Kansas limited liability company.

1.2. "A&L Governors" means the two Governors elected by A&L.

1.3. "Act" means the Tennessee Limited Liability Company Act, Tennessee Code Annotated, Title 48, Chapters 201-248, as amended from time to time.

1.4. "Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person.

1.5. "Approval Date" means the first date by which the Company and its Members have obtained, in form and substance reasonably satisfactory to the Members, all orders, certificates of public convenience and necessity and other regulatory approvals necessary for the Company to provide the services authorized by Tennessee Code Annotated Sections 7-52-401, *et seq.* in the State of Tennessee.

1.6. "Articles of Organization" means the Company's Articles of Organization, as amended from time to time.

1.7. "Board" means the Company's board of governors.

1.8. "Capital Account" means, with respect to any Equity Owner, the account maintained by the Company in accordance with Section 9.2.

1.9. "Capital Contribution" means any contribution to the capital of the Company in cash or property by an Equity Owner, whenever made.

1.10. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.11. "Controlled Subsidiary" means, as to any Person, any other Person of which the first Person beneficially owns (directly or indirectly) securities entitling the holder to cast 50% or more of the votes in the election or removal of directors (or persons holding similar positions) of the second Person.

1.12. "Deficit Capital Account" means with respect to any Equity Owner, the deficit balance, if any, in such Equity Owner's Capital Account as of the end of the Fiscal Year, after giving effect to the following adjustments:

(a) credit to such Capital Account any amount which such Equity Owner is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Treasury Regulations, after taking into account thereunder any changes during such year in partnership minimum gain (as determined in accordance with Section 1.704-2(d) of the Treasury Regulations) and in the minimum gain attributable to any partner nonrecourse debt (as determined under Section 1.704-2(i)(3) of the Treasury Regulations); and

(b) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Treasury Regulations.

This definition of Deficit Capital Account is intended to comply with Sections 1.704-1(b)(2)(ii)(d) and 1.704-2 of the Treasury Regulations, and will be interpreted consistently with those provisions.

1.13. "Depreciation" means, for each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the chief manager.

1.14. "Economic Interest Owner" means the owner of Financial Rights who is not a Member.

1.15. "Entity" means any general partnership, limited partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any foreign trust or foreign business organization, and also includes local, municipal, state, United States, and foreign governments.

1.16. "Equity Owner" means an Economic Interest Owner or a Member.

1.17. "Extraordinary Net Losses" means Net Losses from (i) the sale or other disposition of all or substantially all of the assets of the Company, or of the assets of any line of business of the Company, or (ii) the liquidation and dissolution of the Company (including, without limitation, any Net Losses from adjusting the Gross Asset Values of the Company's assets).

1.18. "Extraordinary Net Profits" means Net Profits from (i) the sale or other disposition of all or substantially all of the assets of the Company, or of the assets of any line of business of the Company, or (ii) the liquidation and dissolution of the Company (including, without limitation, any Net Profits from adjusting the Gross Asset Values of the Company's assets).

1.19. "Financial Rights" means an Equity Owner's rights as provided in the Act to share in profits and losses, to share in distributions, to receive interim distributions, and to receive liquidation distributions.

1.20. "Fiscal Year" means the Company's fiscal year, which shall be the calendar year.

1.21. "Governance Rights" means a right to vote on one or more matters and all of a Member's rights as a Member in the Company other than Financial Rights and the right to assign Financial Rights.

1.22. "Governor" means a natural person serving on the Board.

1.23. "Gross Asset Value" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by an Equity Owner shall be the gross fair market value of such asset, as determined by the Members.

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Members as of the following times: (a) the acquisition of an additional interest by any new or existing Equity Owner; (b) the distribution by the Company to an Equity Owner of more than a *de minimis* amount of property as consideration for an Ownership Interest; and (c) the liquidation of the Company within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Treasury Regulations; provided, however, that adjustments pursuant to clause (a) above and this clause (b) shall be made only if the Members reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Equity Owners in the Company;

(c) The Gross Asset Value of any Company asset distributed to any Equity Owner shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the distributee and the Members; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and Section 9.2 and subparagraph (d) under the definition of Net Profits and Net Losses; provided, however, that Gross Asset Values shall not be adjusted pursuant to this definition to the extent the Members determine that an adjustment pursuant to subparagraph (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraphs (a), (b) or (d) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Net Profits and Net Losses.

1.24. "Member" means a person who owns some Governance Rights of a Membership Interest, as reflected in the Company's records.

1.25. "Membership Interest" means a Member's interest in the Company consisting of the Member's Financial Rights, the Member's right to assign Financial Rights, the Member's Governance Rights, and the Member's right to assign Governance Rights. If a Member has assigned some or all of its Financial Rights, then, with respect to that Member, "Membership Interest" means the Member's Governance Rights, the Member's right to assign Governance Rights, any remaining Financial rights of the Member, and the Member's right to assign any remaining Financial Rights.

1.26. "MLGW" means Memphis Light, Gas, and Water Division, a division of the City of Memphis, Tennessee.

1.27. "MLGW Governors" means the two Governors elected by MLGW.

1.28. "Net Profits" and "Net Losses" means for each Fiscal Year of the Company an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with the accounting method and rules used by the Company and in accordance with Section 703 of the Code with the following adjustments:

(a) Any items of income, gain, loss and deduction allocated to Equity Owners pursuant to Section 10.3 or Section 10.8 shall not be taken into account in computing Net Profits or Net Losses;

(b) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits and Net Losses (pursuant to this definition) shall be added to such taxable income or loss;

(c) Any expenditure of the Company described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Net Profits and Net Losses (pursuant to this definition) shall be subtracted from such taxable income or loss;

(d) In the event the Gross Asset Value of any Company asset is adjusted pursuant to clause (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Net Profits and Net Losses;

(e) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(f) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(g) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) of the Code or Section 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Treasury Regulations to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Ownership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Profits or Net Losses.

1.29. "Operating Agreement" means this Operating Agreement as originally executed and as amended from time to time.

1.30. "Operating Net Losses" means all Net Losses other than Extraordinary Net Losses.

1.31. "Operating Net Profits" means all Net Profits other than Extraordinary Net Profits.

1.32. "Ownership Interest" means, in the case of a Member, the Member's Membership Interest, and, in the case of an Economic Interest Owner, the Economic Interest Owner's Financial Rights.

1.33. "Person" means any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person," where the context so permits.

1.34. "Sharing Ratio" means:

<u>Members</u>	<u>Sharing Ratio</u>
MLGW	53%
A&L	47%

1.35. "Treasury Regulations" shall include proposed, temporary and final regulations promulgated under the Code in effect as of the date of filing the Articles and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.36. "Voting Interest" means:

<u>Member</u>	<u>Voting Interest</u>
MLGW	50%
A&L	50%

ARTICLE 2 ORGANIZATION

2.1. Formation. The Company was formed on November 8, 1999, by the filing of the Articles with the Tennessee Secretary of State.

2.2. Principal Executive Office. The Company's principal executive office is located at 7555 Appling Center Drive, Memphis, Shelby County, Tennessee 38133. At any time the Board may change the Company's principal executive office to another location within Shelby County, Tennessee.

2.3. Registered Office and Registered Agent. The Articles set forth the street address and zip code of the Company's initial registered office in Tennessee, the county in which the office is located, and the name of its initial registered agent at that address. At any time the Board may change the Company's registered office or its registered agent in Tennessee.

2.4. Term. The term of the Company shall commence as of the effective date set forth in Section 2.1 and continue until the Company is wound up and liquidated.

2.5. Business.

(a) Initially, the sole business purpose of the Company shall be to do or cause to be done such acts or things as reasonably necessary to seek and obtain regulatory approval for the Company to provide the services authorized by Tennessee Code Annotated Sections 7-52-401, *et seq.*

(b) Subject to obtaining, and only to the extent permitted by, the necessary regulatory approvals, the business of the Company shall be to (i) provide the services authorized by Tennessee Code Annotated Sections 7-52-401, *et seq.*, (ii) acquire, construct, own, improve, operate, lease, maintain, sell, mortgage, pledge, and otherwise deal and trade in, any related system, plant, equipment or other property, and (iii) exercise all rights and powers and engage in all activities related to the foregoing and legally permissible under the Act.

(c) In furtherance of its business, and not by way of limitation, the Company intends (i) within two years from the Approval Date, to install telecommunication fibers at certain locations in and near St. Jude Hospital and the housing developments known as Jefferson Square, R.Q. Venson and Barry Holmes, and (ii) in Fiscal Years the Company has Net Operating Profits, to commit 1% of its Net Operating Profits (not to exceed \$1 million per Fiscal Year) to the development and enhancement of telecommunication services in the low-income areas of Shelby County, Tennessee.

ARTICLE 3
MEMBERS AND MEMBERSHIP INTERESTS

3.1. Initial Members. The initial Members of the Company shall be MLGW and A&L.

3.2. Nature of Membership Interest. A Membership Interest is personal property. No Member has an interest in specific property of the Company. All property transferred to or acquired by the Company is property of the Company itself.

3.3. Additional Members. Except as provided in Article 11, the Company shall not admit additional Members without the consent of all the Members.

3.4. Community Participation. To the extent permitted by law, MLGW and A&L each shall negotiate in good faith to sell a portion of its Financial Rights to one or more Minority Businesses (as defined below), in a single sale or in multiple sales, provided: (i) each Minority Business shall submit a bona fide purchase proposal to A&L and MLGW, (ii) the sale or sales shall be closed within four (4) years from the Approval Date, (iii) the Minority Business or

Minority Businesses shall not purchase, in the aggregate, more than 7.1% of A&L's Financial Rights and 12.6% of MLGW's Financial Rights, and each purchase of Financial Rights from A&L and MLGW, respectively, shall be in the ratio as 7.1% from A&L and 12.6% from MLGW, (iv) the purchase price in each sale shall be determined by an independent appraisal and shall be payable in cash at the closing, two-thirds to MLGW and one-third to A&L. For purposes of this Section 3.4, the term "Minority Business" means a corporation, partnership, limited liability company or other entity, provided at least fifty-one percent (51%) of the governance and economic rights of the entity are owned by an individual who personally manages and controls the daily operations of the entity and who is impeded from normal entry into the economic mainstream because of race, religion, sex, or national origin.

ARTICLE 4 MEETINGS OF MEMBERS

4.1. Annual Meeting. Beginning in the year 2000, the annual meeting of the Members shall be held at 10:00 a.m. on the second Tuesday of August of each year, or if the second Tuesday of August falls on a legal holiday, then at the same hour on the first succeeding business day, for the purpose of electing Governors and transacting such other business as may properly come before the meeting.

4.2. Special Meetings. Special meetings of the Members may be called at any time by any one (1) or more of the following persons: (i) any Member, (ii) the Board, or (iii) the chief manager. A person who has authority to call a meeting may call the meeting by giving written notice of demand to the Members in accordance with the Act, or by giving written notice of demand to the secretary of the Company, who shall give such notice to the Members in accordance with the Act, at the expense of the Company, within seven (7) days after receipt of the demand. If the secretary fails to cause a meeting to be called and held as properly demanded, the person making the demand may call the meeting by giving notice as required by the Act, all at the expense of the Company. In any case, the notice of a meeting of Members must be given no fewer than ten (10) days nor more than two (2) months before the meeting date.

4.3. Time and Place of Meetings. Meetings must be held on the date and at the time and place fixed by the person properly calling the meeting. Unless otherwise approved by the Members, all called meetings must be held in Shelby County, Tennessee. A meeting by electronic conference will be deemed to be held at the principal executive office or registered office of the Company, if required by the Act, or at the place properly named in the notice calling the meeting.

4.4. Record Date. Unless otherwise fixed by the Board, the record date for the determination of the owners of Membership Interests entitled to notice of and to vote at any meeting of Members shall be the close of business on the date before the first notice is sent to the Members.

4.5. Notice.

(a) Except as otherwise provided in the Act or in the Articles, written notice of all meetings of Members must be given to every member entitled to vote on the matters to be considered, unless (i) the meeting is an adjourned meeting and the date, time, and place of the meeting were announced at the time of adjournment; or (ii) the following have been mailed by first class, certified mail to the Member at the address in the Company's records and returned undeliverable: (A) two (2) consecutive meeting notices, and (B) all payments of distributions for the greater of a twelve-month period or two (2) distributions. The notice must contain the date, time, and place of the meeting, and any other information required by the Act. In the case of a special meeting, the notice must contain a statement of the purposes of the meeting. The notice may also contain any other information required by the Articles or this Operating Agreement or considered necessary or desirable by the person or persons calling the meeting.

(b) A Member may waive any required notice of the meeting. Except as otherwise provided in the Act, a waiver of notice is effective, whether given before or after the meeting or other balloting, if such waiver is given in writing. If a written waiver is given, the secretary shall place such written waiver in the records of the Company. Attendance by a Member at a meeting is a waiver of notice of that meeting, except where the Member objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened, or objects before a vote on an item of business because the item may not lawfully be considered at that meeting and does not participate in the consideration of the item at the meeting. The secretary is required to note the objection in the minutes of the meeting.

(c) Notice may be delivered in person; by facsimile, telegraph, teletype, or other form of wire or wireless communication; or by mail or private carrier. Written notice to the Members is effective when mailed, if mailed postpaid and correctly addressed to the Member's address shown in the Company's current record of Members. Otherwise, written notice is effective when received.

4.6. Proxies. At all meetings of Members, a Member may vote in person or by a proxy executed in writing by the Member or the Member's duly authorized attorney-in-fact. The proxy shall be filed with the secretary of the Company before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

4.7. Quorum. The Members holding all of the Voting Interests shall constitute a quorum for the transaction of business. Once a Membership Interest is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. In the absence of a quorum at any such meeting, a majority of the Voting

Interests represented may adjourn the meeting from time to time for a period not to exceed thirty (30) days without further notice. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed.

4.8. Manner of Acting. The affirmative vote of Members holding all of the Voting Interests shall be the act of the Members, unless the vote of a lesser proportion or number is otherwise required by the Act, the Articles, or this Operating Agreement.

4.9. Conference Meeting. A conference among Members by any means of communication through which the participants may simultaneously hear each other during the conference constitutes attendance at the meeting in person or by proxy if all the other requirements for a meeting are met.

4.10. Action on Written Consent. Any action required or permitted to be taken at a meeting of the Members may be taken without a meeting by action on written consent. Any action on written consent has the effect of a meeting and vote and may be described as such in any document. To take action on written consent, a written waiver of acting at a meeting and a written consent must be signed by all Members. The action must be evidenced by one (1) or more instruments evidencing the waiver and consent, which shall be delivered to the secretary for inclusion in the records of the Company. All such instruments may be signed in counterparts. If not otherwise determined under Section 4.5 above, the record date for determining Members entitled to take action without a meeting is the date the first Member signs the consent. The action on written consent is effective when the last required Member signs the waiver and written consent, unless a different effective time is provided in the instrument evidencing the written consent itself.

4.11. No Action on Recommendation of the Board or Chief Manager. Action on recommendation of the Board or chief manager under Section 48-223-103 of the Act is prohibited.

4.12. Authorized Representatives. Each Member shall cause an officer, employee or other representative of the Member to be duly authorized and empowered to act on behalf of the Member with respect to the Company. The MLGW representative shall be the President of MLGW, and in the event of a vacancy in this position, such interim appointments as MLGW may make from time to time.

ARTICLE 5 BOARD OF GOVERNORS

5.1. Management. Except as otherwise required in this Agreement or by applicable law, all powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed by or under the direction of, the Board. Each Governor shall have equal voting power per capita with each other Governor.

5.2. Number. The number of Governors shall be five (5), and the number shall not be changed without the consent of all the Members.

5.3. Election and Qualifications. Effective as of the date of this Operating Agreement, the initial MLGW Governors shall be Herman Morris and John McCullough, the initial A&L Governors shall be George A. Lowe, II and Edward Powell, and the initial Fifth Governor shall be J. Maxwell Williams. At each annual meeting of Members, (i) MLGW shall elect two Governors (the "MLGW Governors"), (ii) A&L shall elect two (2) Governors (the "A&L Governors"), and (iii) MLGW and A&L, alternately, shall elect the fifth Governor (the "Fifth Governor"), beginning with the annual meeting of Members to be held in [October] 2000, when A&L shall elect the Fifth Governor. Each Governor elected by MLGW shall be either the President, the Secretary/Treasurer or the General Counsel of MLGW, or, if one or more of these offices become vacant, preventing MLGW from electing as a Governor an individual who is serving in one of these three officer positions, MLGW may elect such other individual or individuals as it chooses. Each Governor shall serve until the next annual meeting of the Members and until the Governor's successor is elected and qualified, or until the earlier death, resignation, removal or disqualification of the Governor, except that in no event shall the term of the Fifth Governor extend beyond the next annual meeting of the Members.

5.4. Resignation, Removal and Vacancies. A Governor may resign at any time by giving a written resignation to the secretary or chief manager of the Company. The resignation is effective without acceptance when it is actually received by the secretary or chief manager, unless a later effective time is specified in the resignation. MLGW, and only MLGW, may remove one or both MLGW Governors at any time, and the removal may be with or without cause. A&L, and only A&L, may remove one or both A&L Governors at any time, and the removal may be with or without cause. The Member electing the Fifth Governor, and only that Member, may remove the Fifth Governor at any time, and the removal may be with or without cause. A Governor may be removed by MLGW or A&L, whichever is applicable, only at a meeting called for the purpose of removing the Governor, and the meeting notice must state that the purpose, or one (1) of the purposes, of the meeting is to remove one (1) or more Governors. If a vacancy occurs on the Board, it may be filled only at a meeting of the Members by the Member who elected the Governor whose position has been vacated.

5.5. Committees. A resolution approved by the affirmative vote of a majority of the Board may establish committees having the authority of the Board in the management of the

business of the Company to the extent provided in the resolution, including special litigation committees to consider legal rights or remedies of the Company and whether those rights and remedies should be pursued. Committees other than special litigation committees are subject at all times to the direction and control and serve at the pleasure of the Board. Each member of a committee shall be a member of the Board. Each committee shall have two Governors, one a MLGW Governor, and the other an A&L Governor. Minutes, if any, of committee meetings must be made available upon request to members of the committee and to any Governor. Unless otherwise authorized by all of the Governors, the only authority of any committee shall be to make recommendations to the Board. In no event, however, shall a committee (i) authorize distributions, except according to a formula or method prescribed by the Board; (ii) approve or propose to Members actions requiring approval by Members; (iii) fill vacancies on the Board or on any of its committees; (iv) adopt a plan of merger not requiring Member approval; (v) authorize or approve reacquisition of a Membership Interest, except according to a formula or method prescribed by the Board; or (vi) authorize or approve the issuance or sale or contract for the sale of a Membership Interest, or determine the designation and relative rights, preferences, and limitations of a class or series of Membership Interests.

5.6. Restrictions on Authority of the Board. Notwithstanding the provisions of Section 5.1, the affirmative vote of all the Members shall be necessary to effect any of the following actions:

- (a) Any act in contravention of this Operating Agreement;
- (b) Any merger, consolidation, acquisition or joint venture, partnership, or business combination of the Company or any Controlled Subsidiary of the Company with or into any other Person;
- (c) Any sale, lease, assignment or other disposition by the Company or any Controlled Subsidiary of the Company, in any single transaction or series of related transactions, (i) of all or substantially all of its assets, or (ii) of a capital asset having a value of \$1 million or more at the time of its sale or other disposition, or (iii) that is not in the ordinary course of business;
- (d) Any transaction involving or consisting of a voluntary pledge of, mortgage of, grant of a security interest in, or other encumbrance in the nature of a pledge or mortgage of, any assets of the Company or any Controlled Subsidiary of the Company;
- (e) Any transaction pursuant to which the Company or any Controlled Subsidiary of the Company incurs, assumes, or otherwise becomes liable for any obligations (i) for borrowed money; (ii) evidenced by bonds, debentures, notes or other similar instruments; (iii) for the deferred purchase price for goods or services (other than trade payables or accruals incurred in the ordinary course of business); (iv) under leases required by generally accepted accounting principles to be treated as financing leases; or

(v) in the nature of guarantees of obligations described in clauses (i) through (iv) above of any other Person;

(f) Commencement of any voluntary proceeding in respect of the Company or any Controlled Subsidiary of the Company seeking liquidation, reorganization, dissolution or bankruptcy;

(g) Entry by the Company or any Controlled Subsidiary of the Company into any contract or transaction with, or for the benefit of, any Member or any Affiliate of a Member;

(h) Entry by the Company or any Controlled Subsidiary of the Company into any material agreement, or related series of agreements that in the aggregate are material, including agreements to make capital expenditures, under which the aggregate amount of payments expected to be made by the Company, divided by the number of years over which the payments are expected to be made is greater than \$5,000,000;

(i) Any amendment to the Articles or this Operating Agreement;

(j) Any change in the number of Governors of the Board;

(k) Entry into, or conduct of, any business or line of business other than those described in Section 2.5;

(l) Any material change in any accounting, tax or legal compliance policy of the Company or any Controlled Subsidiary of the Company, unless required in the good faith opinion of the Board by changes in law, regulation or accounting conventions or principles;

(m) Any issuance or redemption of Membership Interests, or any requirement of additional capital contributions from the Members;

(n) Confession of a judgment against the Company; or

(o) Liquidation or dissolution of the Company.

ARTICLE 6 MEETINGS OF THE BOARD OF GOVERNORS

6.1. Time of Meetings. An annual meeting of the Board shall be held immediately after the annual meeting of the Members, except that if a quorum of the Board cannot then be assembled, the meeting shall be adjourned until a quorum is present, but in no event later than thirty (30) days after the annual meeting of Members. Regular meetings of the Board may be

held at such times as determined by the Board. Special meetings of the Board may be held at any time upon the call of the chief manager or two (2) Governors by giving two (2) days' notice to all Governors of the date, time, and place of the meeting. The notice need not state the purpose of the meeting unless required by the Act, the Articles or this Operating Agreement.

6.2. Place of Meetings. The annual meeting of the Board shall be held at the same place as the annual meeting of Members, except that any adjournment thereof may be held at any place within Shelby County, Tennessee, as may be designated by the Governors adjourning the meeting. Regular meetings of the Board shall be held at such place as determined by the Board. Special meetings of the Board shall be held at such place within Shelby County, Tennessee, as fixed by the person or persons properly calling the meeting.

6.3. Notice. If a regular meeting date, time and place have been established by the Board, no notice of the meeting is required. Notice of an adjourned meeting need not be given other than by announcement at the meeting at which adjournment is taken; provided, that the period of adjournment does not exceed one (1) month for any one (1) adjournment. A Governor may waive any notice required by this Act, the Articles or this Operating Agreement before or after the date and time stated in the notice. The waiver must be in writing, signed by the Governor entitled to the notice, and filed with the minutes or other records of the Company, provided that a Governor's attendance at or participation in a meeting waives any required notice to the Governor of the meeting, unless the Governor at the beginning of the meeting (or promptly upon arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to any action taken at the meeting.

6.4. Quorum and Manner of Acting. All of the Governors shall constitute a quorum for the transaction of business. The affirmative vote of all of the Governors shall be the act of the Board, unless the vote of a lesser number is otherwise required by the Act, the Articles, or this Operating Agreement. If a quorum is present when a duly called or held meeting is convened, the Governors present may continue to transact business until adjournment, even though the withdrawal of a number of Governors originally present leaves less than the number otherwise required for a quorum. A Governor who is present at a meeting of the Board when Company action is taken is deemed to have assented to the action taken unless: (i) the Governor objects at the beginning of the meeting (or promptly upon the Governor's arrival) to holding it or transacting business at the meeting; (ii) the Governor's dissent or abstention from the action taken is entered in the minutes of the meeting; or (iii) the Governor delivers written notice of dissent or abstention to the presiding officer of the meeting before its adjournment or to the Company immediately after adjournment of the meeting. The right of dissent or abstention is not available to a Governor who votes in favor of the action taken.

6.5. Conference Meeting. The Board may permit any or all Governors to participate by or conduct the meeting through the use of any means of communication by which all Governors participating may simultaneously hear each other during the meeting. A Governor

participating in a meeting by this means is deemed to be present in person at the meeting, which may be reflected in the minutes.

6.6. Action without a Meeting. An action required or permitted to be taken at a meeting of the Board may be taken with the consent of all the Members. The action must be evidenced by one (1) or more written consents describing the action taken, signed by each Governor in one (1) or more counterparts, indicating the signing Governor's vote or abstention on the action, and shall be included in the minutes or filed with the Company's records reflecting the action taken. The written action shall be effective when the last required Governor signs the action, unless a different effective time is provided in the written action. A properly signed consent has the effect of a meeting vote and may be described as such in any document. Any action requiring a meeting by the board is satisfied by a properly signed consent.

ARTICLE 7 MANAGERS

7.1. Managers. The managers of the Company shall be the chief manager, the secretary, and any other managers or agents the Board considers necessary or desirable for the operation and management of the Company. Managers need not be residents of Tennessee or Members of the Company. Any number of managerial positions (or functions of those positions) other than those of chief manager and secretary may be held or exercised by the same person. If a document must be signed by persons holding different positions or functions and a person holds or exercises more than one (1) of those positions or functions, that person may sign the document in more than one (1) capacity, but only if the document indicates each capacity in which the person signs.

7.2. Election and Term. The managers of the Company shall be elected at the annual meeting of the Board. Each manager shall hold office at the pleasure of the Board or for such other period as the Board may specify at the time of electing the manager, or until the death, resignation or removal of the manager, whichever first occurs, except that in no event shall the term of the chief manager extend beyond the next annual meeting of the Board. Nothing in this Section 7.2 shall preclude the Board from exercising such other rights to terminate a manager as may be provided in this Operating Agreement or in any contract with the manager.

7.3. Removal. The Board may remove a manager at any time with or without cause. The Board may eliminate any manager position other than chief manager or secretary at any time.

7.4. Vacancies. A vacancy in an office of manager because of death, resignation, removal, disqualification, or other cause may (or, in the case of a vacancy in the office of chief manager or secretary, must) be filled for the unexpired portion of the term by the Board. If a vacancy is created by a resignation which is made effective at a later date and the Company

accepts the future effective date, the Board may fill the pending vacancy before the effective date, if the action provides that the successor does not take office until the effective date.

7.5. Delegation. Unless prohibited by the Articles, this Operating Agreement, or by a resolution adopted by the Board, a manager, without further approval, may delegate some or all of the duties and powers of an office to other persons. A manager who delegates the duties or powers of an office remains subject to the standard of conduct for a manager with respect to the discharge of all duties and powers so delegated.

7.6. Duties.

(a) The chief manager shall perform the duties prescribed by the Board or the Members; other managers shall perform the duties prescribed by the Board, the Members or the chief manager.

(b) Unless otherwise provided by the Board or the Members, and subject to the other provisions of this Operating Agreement, the chief manager shall have the general executive powers and duties of supervision and management as are usually vested in the president of a corporation, including, without limitation: (i) seeing that all orders and resolutions of the Board or Members are carried into effect; (ii) signing and delivering in the name of the Company any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Company (unless another signature is required by law, or by the Articles, this Operating Agreement or the Board), except that, without the approval of the Board or the Members, the chief manager shall not enter into a contract in the name of the Company with a term of more than one year; (iii) if the Company has a vacancy in the office of secretary, accepting delivery of any notices, documents or other matters otherwise required to go to the secretary; (iv) authorizing and making expenditures in accordance with periodic budgets approved by the Board; and (v) authorizing and making unbudgeted expenditures in the ordinary course of business, not to exceed \$2,000,000 per year under any one agreement, or series of related agreements, or \$3,000,000 per year in the aggregate.

(c) Unless the Board, the Members, or the chief manager otherwise provide, the secretary shall (i) keep accurate membership records for the Company, (ii) maintain records of and, whenever necessary, certify all proceedings of, the Board, the Members or committees of the Company; (iii) receive notices required to be sent to the secretary and keep a record of such notices in the records of the Company.

ARTICLE 8 LIMITATIONS ON LIABILITIES AND DUTIES

8.1. Limited Liability. A Member, Economic Interest Owner, Governor, manager, employee or other agent of the Company does not have any personal obligation and is not otherwise personally liable for (i) the acts, debts, liabilities, or obligations of the Company, whether arising in contract, tort or otherwise, or (ii) the acts or omissions of any other Member, Economic Interest Owner, manager, Governor, employee or other agent of the Company. The limited liability described in this Section 8.1 shall continue in full force regardless of any dissolution, winding up, and termination of the Company.

8.2. Other Business Activities.

(a) Any Member, Governor or Affiliate of a Member or Governor may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, whether or not similar to or in competition with the Company, and neither the Company nor any Member shall have any right by virtue of this Operating Agreement in or to such other business ventures, or to the income or profits derived from such other business ventures, except that, during the period a Person is a Member or Governor of the Company, neither such Person nor any Affiliate of such Person, directly or indirectly, shall engage in, or possess an interest in, another business venture which provides telecommunication services on a wholesale basis in Shelby County, Tennessee in competition with the Company. Each Member may, independently, and on its own account, provide retail telecommunication services to the general public in Shelby County, Tennessee, including without limitation, automatic meter reading, Internet services, video on demand, and local prepaid telephone services.

(b) Neither the Members or the Governors shall be required to devote all of their time or business efforts to the affairs of the Company, but shall devote so much of their time and business efforts as is reasonably necessary and advisable to manage the affairs of the Company to the best advantage of the Company.

8.3. Transactions with Members, Governors, Managers, and their Affiliates. No contract or other transaction between the Company and any Member, Governor or manager of the Company, or any Affiliate of a Member, Governor, or manager of the Company, shall be void or voidable because of the relationship of the parties, and neither the Member, Governor, manager nor Affiliate shall be obligated to account to the Company for any profit or benefit derived from such contract or other transaction, provided (i) the terms and conditions of the contract or other transaction are not materially less favorable to the Company than generally would be available in an arms' length transaction, or (ii) the contract or other transaction is otherwise valid under Section 48-239-116 or Section 48-240-103 of the Act, or other applicable law.

ARTICLE 9
CONTRIBUTIONS AND CAPITAL ACCOUNTS

9.1. Capital Contributions.

(a) On the date hereof, MLGW shall make an initial Capital Contribution to the Company of \$533.00 in cash, and A&L shall make an initial Capital Contribution to the Company of \$467.00 in cash.

(b) Between the date hereof and the Approval Date, MLGW and A&L, in their discretion, may make additional Capital Contributions as a source of funding for the Company to seek and obtain regulatory approvals, as contemplated by Section 2.5(a) above. MLGW and A&L shall each make one-half of any Capital Contributions under this Section 9.1(b).

(c) Subsequent to the Approval Date, MLGW and A&L shall make Capital Contributions to the Company as required by that certain Agreement dated November 8, 1999 between MLGW and A&L.

(d) It is contemplated that, if and to the extent approved by the Members, the Members may make one or more Capital Contributions in addition to the Capital Contributions contemplated under subsections (a) through (c) of this Section 9.1, so that the aggregate of all Capital Contributions will be approximately \$30 million. The Member's Capital Contributions under this Section 9.1(d) shall be in proportion to the initial Capital Contributions under Section 9.1(a).

(e) The Capital Contribution of each Member shall be conditioned upon the concurrent Capital Contribution required of the other Member. Except as provided in subsections (a) and (c) of this Section 9.1, and except as mutually agreed in writing by all of the Members, no Member shall be required to make Capital Contributions.

9.2. Capital Accounts.

(a) The Company shall maintain a separate Capital Account for each Equity Owner in conformity with the requirements under Section 1.704-1(b)(2)(iv) of the Treasury Regulations. Consistent with such Treasury Regulations, each Equity Owner's Capital Account will be increased by (i) the amount of money contributed by such Equity Owner to the Company; (ii) the fair market value of property contributed by such Equity Owner to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code); (iii) allocations to such Equity Owner of Net Profits; (iv) any items in the nature of income and gain which are specially allocated to the Equity Owner pursuant to subsections (a) through (f) of Section 10.3; and (v) allocations to such Equity Owner of

income described in Section 705(a)(1)(B) of the Code. Each Equity Owner's Capital Account will be decreased by (i) the amount of money distributed to such Equity Owner by the Company; (ii) the fair market value of property distributed to such Equity Owner by the Company (net of liabilities secured by such distributed property that such Equity Owner is considered to assume or take subject to under Section 752 of the Code); (iii) allocations to such Equity Owner of expenditures described in Section 705(a)(2)(B) of the Code; (iv) any items in the nature of deduction and loss that are specially allocated to the Equity Owner pursuant to subsections (a) through (f) of section 10.3; and (v) allocations to such Equity Owner of Net Losses.

(b) In the event of a permitted sale or exchange of a Ownership Interest in the Company, the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Ownership Interest in accordance with Section 1.704-1(b)(2)(iv) of the Treasury Regulations.

(c) Upon liquidation of the Company, liquidating distributions will be made in accordance with the positive Capital Account balances of the Equity Owners, as determined after taking into account all Capital Account adjustments for the Company's Fiscal Year during which the liquidation occurs. Liquidation proceeds will be paid in accordance with Article 12.

ARTICLE 10 ALLOCATIONS AND DISTRIBUTIONS

10.1. Allocation of Operating Net Profits and Operating Net Losses. Subject to Section 10.3 below, the Operating Net Losses and Operating Net Profits for each Fiscal Year shall be allocated among the Equity Owners as follows:

(a) If the Company has Operating Net Losses, as follows:

(i) First, 50% to each of A&L and MLGW, respectively, to the extent that its Capital Contributions prior to the Approval Date exceed [A] the cumulative Net Losses allocated to it in prior Fiscal Years under this Section 10.1(a)(i) and under Section 10.2(a)(i), minus [B] the cumulative Net Profits allocated to it in prior Fiscal Years under Section 10.1(b)(iv) and 10.2(b)(iv).

(ii) Then, to A&L, to the extent that A&L's Capital Contributions after the Approval Date exceed [A] the cumulative Net Losses allocated to A&L in prior Fiscal Years under this Section 10.1(a)(i) and under Section 10.2(a)(i), minus [B] the cumulative Net Profits allocated to A&L in prior Fiscal Years under Sections 10.1(b)(iii) and 10.2(b)(iii);

(iii) Then, to MLGW, to the extent that MLGW's Capital Contributions after the Approval Date exceed [A] the cumulative Net Losses allocated to MLGW in prior Fiscal Years under this Section 10.1(a)(ii) and under Section 10.2(a)(ii) below, minus [B] the cumulative Net Profits allocated to MLGW in prior Fiscal Years under Sections 10.1(b)(ii) and 10.2(b)(ii);

(iv) Then, to A&L and MLGW in accordance with their Sharing Ratios.

(b) If the Company has Operating Net Profits, as follows:

(i) First, to A&L and MLGW, respectively, in accordance with their Sharing Ratios, to the extent that [A] the cumulative Net Losses allocated in prior Fiscal Years to A&L and MLGW, respectively, under Sections 10.1(a)(iv) and 10.2(a)(iv), exceed [B] the cumulative Net Profits allocated in prior Fiscal Years to A&L and MLGW, respectively, under this Section 10.1(b)(i) and under Section 10.2(b)(i);

(ii) Then, to MLGW, to the extent that [A] the cumulative Net Losses allocated to MLGW in prior Fiscal Years under Sections 10.1(a)(iii) and 10.2(a)(iii), exceed [B] the cumulative Net Profits allocated to MLGW in prior Fiscal Years under this Section 10.1(b)(ii) and under Section 10.2(b)(ii);

(iii) Then, to A&L to the extent that [A] the cumulative Net Losses allocated to A&L in prior Fiscal Years under Sections 10.1(a)(ii) and 10.2(a)(ii), exceed [B] the cumulative Net Profits allocated to A&L in prior Fiscal Years under this Section 10.1(b)(iii) and under Section 10.2(b)(iii);

(iv) Then, 50% to each of A&L and MLGW, respectively, to the extent that [A] the cumulative Net Losses allocated to it in prior Fiscal Years under Sections 10.1(a)(i) and 10.2(b)(i), exceed [B] the cumulative Net Profits allocated to it in prior Fiscal Years under this Section 10.1(b)(iv) and under Section 10.2(b)(iv);

(v) Then, to A&L and MLGW in accordance with their Sharing Ratios.

10.2. Allocation of Extraordinary Net Losses and Extraordinary Net Profits. Subject to Section 10.3 below, the Extraordinary Net Losses and Extraordinary Net Profits for each Fiscal Year shall be allocated among the Equity Owners as follows, after first taking into account any allocations under Section 10.1 for such Fiscal Year:

(a) If the Company has Extraordinary Net Losses, as follows:

(i) First, 50% to each of A&L and MLGW, respectively, to the extent that its Capital Contributions prior to the Approval Date exceed [A] the cumulative Net Losses allocated to it in the current and prior Fiscal Years under Section 10.1(a)(i), and in prior Fiscal Years under this Section 10.2(a)(i), minus [B] the cumulative Net Profits allocated to it in the current and prior Fiscal Years under Section 10.1(b)(iv) and in prior Fiscal Years under Section 10.2(b)(iv);

(ii) Then, to A&L to the extent that A&L's Capital Contributions after the Approval Date exceed [A] the cumulative Net Losses allocated to A&L in the current and prior Fiscal Years under Section 10.1(a)(i), and in prior Fiscal Years under this Section 10.2(a)(i), minus [B] the cumulative Net Profits allocated to A&L in the current and prior Fiscal Years under Section 10.1(b)(iii), and in prior Fiscal Years under Section 10.2(b)(iii);

(iii) Then, to MLGW to the extent that MLGW's Capital Contributions after the Approval Date exceed [A] the cumulative Net Losses allocated to MLGW in the current and prior Fiscal Years under Section 10.1(a)(ii) above, and in prior Fiscal Years under this Section 10.2(a)(ii), minus [B] the cumulative Net Profits allocated to MLGW in the current and prior Fiscal Years under Section 10.1(b)(ii) and in prior Fiscal Years under Section 10.2(b)(ii);

(iv) Then, to A&L and MLGW in accordance with their Sharing Ratios.

(b) If the Company has Extraordinary Net Profits, as follows:

(i) First, to A&L and MLGW, respectively, in accordance with their Sharing Ratios, to the extent that [A] the cumulative Net Losses allocated to A&L and MLGW, respectively, in the current and prior Fiscal Years under Section 10.1(a)(iv) and in prior Fiscal Years under 10.2(a)(iv), exceed [B] the cumulative Net Profits allocated to A&L and MLGW, respectively, in the current and prior Fiscal Years under 10.1(b)(i) and in prior Fiscal Years under this Section 10.2(b)(i);

(ii) Then, to MLGW to the extent that [A] the cumulative Net Losses allocated to MLGW in the current and prior Fiscal Years under Section 10.1(a)(iii) and in prior Fiscal Years under Section 10.2(a)(iii), exceed [B] the cumulative Net Profits allocated to MLGW in the current and prior Fiscal Years under Section 10.1(b)(ii) and in prior Fiscal Years under this Section 10.2(b)(ii);

(iii) Then, to A&L to the extent that [A] the cumulative Net Losses allocated to A&L in the current and prior Fiscal Years under Section 10.1(a)(ii) and in prior Fiscal Years under Section 10.2(a)(ii), exceed [B] the cumulative Net

Profits allocated to A&L in the current and prior Fiscal Years under Section 10.1(b)(iii) and in prior Fiscal Years under this Section 10.2(b)(iii);

(iv) Then, 50% to each of A&L and MLGW, respectively, to the extent that [A] the cumulative Net Losses allocated to it in the current and prior Fiscal Years under Section 10.1(a)(i) and in prior Fiscal Years under Section 10.2(a)(i), exceed [B] the cumulative Net Profits allocated to it in the current and prior Fiscal Years under Section 10.1(b)(iv) and in prior Fiscal Years under this Section 10.2(b)(iv);

(v) Then, 50% to A&L and 50% to MLGW.

10.3. Special Allocations to Capital Accounts. Notwithstanding Sections 10.1 and 10.2 hereof:

(a) In the event any Equity Owner unexpectedly receives any adjustments, allocations, or distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6) of the Treasury Regulations, which create or increase a Deficit Capital Account of such Equity Owner, then items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Equity Owner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this Section 10.3(a) be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Treasury Regulations.

(b) In the event any Equity Owner would have a Deficit Capital Account at the end of any Company taxable year which is in excess of the sum of any amount that such Equity Owner is obligated to restore to the Company under Section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations and such Equity Owner's share of minimum gain as defined in Section 1.704-2(g)(1) of the Treasury Regulations (which is also treated as an obligation to restore in accordance with Section 1.704-1(b)(2)(ii)(d) of the Treasury Regulations), the Capital Account of such Equity Owner shall be specially credited with items of Company income (including gross income) and gain in the amount of such excess as quickly as possible.

(c) Notwithstanding any other provision of this Section 10.3, if there is a net decrease in the Company's minimum gain as defined in Treasury Regulation Section 1.704-2(d) during a taxable year of the Company, then, the Capital Accounts of each Equity Owner shall be allocated items of income (including gross income) and gain for such year (and if necessary for subsequent years) equal to that Equity Owner's share of the net decrease in Company minimum gain. This Section 10.3(c) is intended to comply with the minimum gain charge back requirement of Section 1.704-2 of the Treasury

Regulations and shall be interpreted consistently therewith. If in any taxable year that the Company has a net decrease in the Company's minimum gain, if the minimum gain charge back requirement would cause a distortion in the economic arrangement among the Equity Owners and it is not expected that the Company will have sufficient other income to correct that distortion, the Members may in their discretion cause the Company to seek to have the Internal Revenue Service waive the minimum gain charge back requirement in accordance with Treasury Regulation Section 1.704-2(f)(4).

(d) Notwithstanding any other provision of this Section 10.3 except Section 10.3(c), if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Company Fiscal Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt (determined in accordance with Regulation § 1.704-2(i)(5)) as of the beginning of the year shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt. A Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain shall be determined in accordance with Regulation § 1.704-2(i)(4); provided that a Member shall not be subject to this provision to the extent that an exception is provided by Regulation § 1.704-2(i)(4) and any Revenue Rulings issued with respect thereto. Any Member Nonrecourse Debt Minimum Gain allocated pursuant to this provision shall consist of first, gains recognized from the disposition of Company property subject to the Member Nonrecourse Debt, and, second, if necessary, a pro rata portion of the Company's other items of income or gain for that year. This Section 10.3(d) is intended to comply with the minimum gain charge back requirement in Regulation § 1.704-2(i)(4) and shall be interpreted consistently therewith.

(e) Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) which are attributable to any nonrecourse debt of the Company and are characterized as partner (Member) nonrecourse deductions under Section 1.704-2(i) of the Treasury Regulations shall be allocated to the Equity Owners' Capital Accounts in accordance with said Section 1.704-2(i) of the Treasury Regulations.

(f) Beginning in the first taxable year in which there are allocations of "nonrecourse deductions" (as described in Section 1.704-2(b) of the Treasury Regulations), such deductions shall be allocated to the Equity Owners in the same manner as Net Loss is allocated for such period.

10.4. Application of Credits and Charges. Any credit or charge to the Capital Accounts of the Equity Owners pursuant to subsections (a) through (f) of Section 10.3 shall be taken into account in computing subsequent allocations of Net Profits and Net Losses pursuant to Sections 10.1 and 10.2, so that the net amount of any items charged or credited to Capital Accounts pursuant to subsections (a) through (f) of Section 10.3 hereof shall to the extent possible, be

equal to the net amount that would have been allocated to the Capital Account of each Equity Owner pursuant to the provisions of this Article 10 if the special allocations required by Sections 10.3(a) through 10.3(f) had not occurred.

10.5. Distributions.

(a) Within sixty (60) days after the end of each Fiscal Year, unless otherwise agreed by the Members, the Company shall distribute to the Equity Owners, in accordance with their Sharing Ratios, an amount equal to the higher of: (i) forty-five percent (45%) of the Net Profits allocated to the Equity Owners with respect to such Fiscal Year, or (ii) eighty-five percent (85%) of the Company's cash flow for such Fiscal Year, which shall be equal to (i) the cash flow from operating and investing activities, plus (ii) any increase in long-term debt, minus (iii) any payments of the current portion of long-term debt.

(b) By mutual agreement, the Members may from time to time authorize additional distributions of cash or other property to Equity Owners, provided that no distribution shall be declared and paid unless, after the distribution is made, the assets of the Company exceed its liabilities, and the Company satisfies such other requirements as may apply under the Act. Except as provided in Article 12, all distributions made by the Company with respect to Ownership Interests (excluding distributions in redemption of all or part of an Equity Owner's Ownership Interest) shall be allocated among the Equity Owners in accordance with their Sharing Ratios.

10.6. Interest On and Return of Capital Contributions. No Member shall be entitled to interest on, or to a return of, the Member's Capital Contribution, except as otherwise specifically provided in this Operating Agreement.

10.7. Tax Matters Partner. A&L shall be the Tax Matters Partner as defined in Section 6231(a)(7) of the Code for so long as A&L is a Member of the Company.

10.8. Certain Allocations for Income Tax (But Not Book Capital Account) Purposes.

(a) In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-1(b)(2)(i)-(iv) of the Treasury Regulations, if a Member contributes property with a initial Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the property shall, solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Equity Owners so as to take account of any variation between the adjusted basis of such property to the Company and its Gross Asset Value at the time of contribution pursuant to such method as determined by the Manager.

(b) Pursuant to Section 704(c)(1)(B) of the Code, if any contributed property is distributed by the Company other than to the contributing Equity Owner within seven years of being contributed, then, except as provided in Section 704(c)(2) of the Code, the contributing Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain or loss from the sale of such property in an amount equal to the gain or loss that would have been allocated to such Equity Owner under Section 704(c)(1)(A) of the Code if the property had been sold at its fair market value at the time of the distribution.

(c) In the case of any distribution by the Company to a Equity Owner, such Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(1) the excess (if any) of (A) the fair market value of the property (other than money) received in the distribution over (B) the adjusted basis of such Equity Owner's Ownership Interest immediately before the distribution reduced (but not below zero) by the amount of money received in the distribution, or

(2) the Net Precontribution Gain (as defined in Section 737(b) of the Code) of the Equity Owner. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Equity Owner under Section 704(c)(1)(B) of the Code if all property which (1) had been contributed to the Company within seven years of the distribution, and (2) is held by the Company immediately before the distribution, had been distributed by the Company to another Equity Owner. If any portion of the property distributed consists of property which had been contributed by the distributee Equity Owner to the Company, then such property shall not be taken into account under this Section 10.8(c)(2) and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the property distributed consists of an interest in an Entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the property contributed to such Entity after such interest had been contributed to the Company.

(d) All recapture of income tax deductions resulting from sale or disposition of Company property shall be allocated to the Equity Owners to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Equity Owner is allocated any gain from the sale or other disposition of such property.

ARTICLE 11

TRANSFER OF MEMBERSHIP INTERESTS

11.1. Restrictions on Transfer of Ownership Interests. An Equity Owner shall not sell, assign, transfer, give away or otherwise dispose of all or any part of the Equity Owner's Ownership Interest except as permitted in this Article 11 or in Section 3.4.

11.2. Permitted Transfers. Each Member may grant a security interest in any or all of its Financial Rights and in its right to assign its Financial Rights (the "Collateral"), but no Member may grant a security interest in its Governance Rights or its right to assign its Governance Rights. If the secured party forecloses on its security interest in the Collateral, the foreclosure shall constitute an Involuntary Transfer under Section 11.6 below. If the Company and the other Members elect not to purchase the Collateral under Section 11.6, the Involuntary Transfer shall be effected, but the Involuntary Transfer shall not result in the secured party becoming a Member.

11.3. Prohibited Transfers. Except as provided in Sections 3.4, 11.2 and 11.6, for a period of four years following the Approval Date (the "First Period"), neither Member shall directly or indirectly transfer all or part of its Ownership Interest without the prior written consent of the other Member, which consent may be withheld for any reason.

11.4. Right of First Refusal and Come Along.

(a) From and after the expiration of the First Period, if a Member (the "Offering Member") proposes to sell all of its Ownership Interest in the Company ("Offered Interest") pursuant to a bona fide written offer ("Offer"), it shall give written notice (the "Purchase Notice") to the Company and the other Member (the "Offeree Member"), fully describing the offeror (the "Third Party Offeror") and the terms and conditions of the Offer. An Offer shall not be treated as being bona fide unless the full purchase price is payable in cash at the closing.

(b) The Offeree Member shall have an option to purchase all of the Offered Interest at the purchase price and upon the other terms specified in the Offer, exercisable by giving written notice thereof to the Offering Member and the Company within sixty (60) days after the date of the Purchase Notice.

(c) If the Offeree Member fails to exercise its option, the Company shall have an option to purchase all of the Offered Interest at the purchase price and upon the other terms specified in Offer, exercisable by giving written notice thereof to the Members within seventy (70) days after the date of the Purchase Notice.

(d) If either of the options granted in subsections (b) and (c) of this Section 11.4 is exercised, the closing shall be held at the principal executive office of the Company within thirty (30) days after the applicable option is exercised. At such closing, the Offering Member shall deliver to the Offeree Member or the Company, whichever is applicable, a bill of sale and assignment effecting the transfer of the Offered Interest,

together with such other documents which the Offeree Member or the Company reasonably requests to effect the purposes of this Operating Agreement.

(e) If neither the Offeree Member nor the Company elects to purchase all of the Offered Interest, the Offering Member may sell all of the Offered Interest to the Third Party Offeror, except that if the Purchase Notice was given within three (3) years after the expiration of the First Period (the "Second Period"), and if, within seventy-five (75) days after the date of the Purchase Notice, the Offeree Member notifies the Offering Member of its desire to participate in the sale to the Third Party Offeror, the Offering Member shall not sell the Offered Interest to the Third Party Offeror, unless the Third Party Offeror concurrently purchases all of the Offeree Member's Ownership Interest. The purchase price for the Offeree Member's Ownership Interest shall be payable in cash at the closing and shall be equal in amount to the Capital Account which would result for the Offeree Member if all of the business and assets of the Company were sold for an amount which would cause the Offering Member's Capital Account to be equal to the purchase price payable by the Third Party Offeror for the Offered Interest. The sale by the Offering Member (or by the Offering Member and the Offeree Member, if the Offeree Member exercises its right to participate in the sale) to the Third Party Offeror shall be closed within one hundred and eighty (180) days of the date of the Purchase Notice, or else the Offered Interest shall once again be subject to the provisions of this Section 11.4.

(f) The Third Party Offeror shall be bound by all of the terms and conditions of this Agreement with respect to the Ownership Interests it purchases under this Section 11.4.

11.5. Change in Control of A&L.

(a) During the First Period, A&L shall not permit a Change in Control of A&L. For purposes of this Section 11.5, the term "Change in Control of A&L" means that George A. Lowe II for any reason (other than his death or a transaction under Section 11.6) ceases to own at least 51% of the voting rights of A&L, either directly, or indirectly through one or more entities.

(b) A&L shall promptly notify MLGW (the "Change in Control Notice") of any Change in Control of A&L occurring within the Second Period. MLGW shall have the option, exercisable by giving notice thereof to A&L within thirty (30) days after the date of the Change in Control Notice, to require A&L to purchase all, but not less than all, of MLGW's Ownership Interest for a purchase price equal to the fair market value of the Ownership Interest, determined in accordance with Section 11.8 as of the date the Change in Control Notice. At the election of MLGW, the purchase price shall be payable either in cash at the closing, or by delivery of a promissory note at the closing, bearing interest at the Prime Rate plus two percent (2%), payable in five equal and consecutive annual installments of principal and interest. The closing shall be held at the principal

executive office of the Company on such date as mutually agreed upon by A&L and MLGW, but not more than fifteen (15) days after the fair market value of A&L's Ownership Interest has been determined in accordance with Section 11.8. For purposes of this Section 11.5, the term "Prime Rate" means the base rate of interest on corporate loans posted by at least seventy-five percent (75%) of the thirty (30) largest U.S. banks as reported in The Wall Street Journal.

(c) After the expiration of the Second Period, the Change in Control of A&L shall not be subject to any restrictions under this Operating Agreement.

11.6. Call Option by A&L.

(a) For a period of fifteen (15) years from the date of this Operating Agreement, A&L shall have an option to purchase all, but not less than all, of MLGW's Ownership Interest, upon satisfaction of the following conditions within such 15-year period:

(i) A corporation in control of A&L (the "Issuer") determines to register some or all of its securities ("Securities"). The terms "register" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended, or any similar successor federal statute and the rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

(ii) A&L and the Issuer notify MLGW at least one hundred thirty-five (135) days prior to the date of the proposed registration (the "Registration Notice").

(iii) When the Registration Notice is given, the Issuer directly or indirectly owns 25% or more of the governance and financial rights in each of at least five other telecommunication companies (the "Other Companies") (in addition to its ownership interest in the Company), and the Unaffiliated Owners of at least five of the Other Companies (the "Other Participating Companies") have agreed to contribute their ownership interests in the Other Participating Companies to the Issuer in exchange for Securities, and such contributions would cause the Issuer directly or indirectly to become the owner of at least 51% of the governance and economic rights of the Other Participating Companies. The term "Unaffiliated Owners" means entities which do not directly or indirectly own a majority of the governance or economic rights of the Issuer or A&L, or in which neither the Issuer nor A&L directly or indirectly owns a majority of the governance or economic rights.

(iv) In the Registration Notice, A&L offers an option for MLGW to participate in the registration on terms and conditions substantially similar in all

material respects to the terms and conditions which have been accepted by the Other Participating Companies, and MLGW fails to exercise its option within forty-five (45) days after the date of the Registration Notice.

(b) A&L may exercise its option by giving notice thereof to MLGW within forty-five (45) days after the date of the Registration Notice. The purchase price payable for MLGW's Ownership Interest shall be equal to its fair market value determined in accordance with Section 11.8 as of the date of the Registration Notice, without regard to any premium in value which might have resulted if MLGW had participated in the registration, except that, if it is impermissible as a matter of law for MLGW to participate in the registration, the purchase price payable for MLGW's Ownership Interest shall be equal to the fair market value of the Securities which would have been issued to MLGW if it had contributed its Ownership Interest to the Issuer on terms and conditions substantially similar in all material respects to the terms and conditions applicable to the Other Participating Companies. The closing shall be held at the principal executive office of the Company on such date as mutually agreed upon by A&L and MLGW, but no later than the effective date of the registration.

11.7. Involuntary Transfers.

(a) Upon the occurrence of an Involuntary Transfer with respect to a Member (the "Affected Member"), the Company or the other Member shall have an option to purchase all (but not less than all) of the Ownership Interest of the Affected Member with respect to which the Involuntary Transfer has occurred (the "Affected Interest"). An "Involuntary Transfer" means any purported involuntary transfer, sale or other disposition of all or any part of an Ownership Interest in the Company, whether by operation of law, pursuant to court order, execution of a judgment or other legal process or otherwise, and including a purported transfer to a trustee in bankruptcy, receiver or assignee for the benefit of creditors.

(b) Upon the occurrence of an Involuntary Transfer, the Affected Member shall promptly notify the Company and the other Members thereof, stating when and why the Involuntary Transfer occurred, the percentage of the Affected Member's Ownership Interest which is involved, and the name, address and capacity of the transferee, if a purported transfer has occurred. If no such notice is given, the Company or any other Member may institute purchase proceedings under this Section 11.6 by giving written notice thereof to the Affected Member.

(c) The Company shall have the first option, exercisable by giving notice thereof to the Members within thirty (30) days after the date of the notice of Involuntary Transfer, to purchase all or any part of such Affected Interest at the price and terms provided below, and the other Member shall then have a second option, exercisable by giving notice thereof to the Company and the Affected Member within sixty (60) days

after the date of the notice of Involuntary Transfer, to purchase all or any part of the Affected Interest which the Company elects not to purchase, upon the same terms and conditions as exist in favor of the Company. If the Company and the other Member do not together purchase all of the Affected Interest, the options granted in this Section 11.7 shall be inapplicable, and the Involuntary Transfer may be effected without regard to this Section 11.7.

(d) The purchase price for an Affected Interest shall be its fair market value, as determined in accordance with Section 11.8 below, as of the end of the calendar quarter immediately preceding the earlier of the date of the Affected Member's notice of Involuntary Transfer, if any, or the date the Company or any Member notifies the Affected Member that purchase proceedings have been instituted under this Section 11.7. The purchase price shall be payable entirely in cash at the closing.

(e) The closing of any sale under this Section 11.7 shall be held at the principal executive office of the Company within fifteen (15) days after the determination of the fair market value of the Affected Interest pursuant to Section 11.8. At the closing, the Affected Member shall deliver to the Company and/or the purchasing Member a bill of sale and assignment effecting the transfer of the Ownership Interest, together with such other documents which the Company and/or purchasing Member reasonably requests to effect the purposes of this Operating Agreement.

(f) Upon the occurrence of an Involuntary Transfer with respect to an Affected Member, the remaining Member may continue the existence of the Company and its business.

11.8. Fair Market Value.

(a) Whenever it is necessary to determine the fair market value of an Ownership Interest under Sections 11.5, 11.6 or 11.7, the Member selling its Ownership Interest ("Seller") and the Company and/or Member or Members purchasing the Seller's Ownership Interest ("Buyer") shall use their best efforts to agree upon the fair market value of the Ownership Interest.

(b) If the Seller and Buyer cannot agree upon the fair market value of the Ownership Interest, then, within ten (10) days after all of the applicable options have expired or been exercised, Seller and Buyer shall use their best efforts to agree upon an appraiser to determine the fair market value of the Ownership Interest. If the Seller and Buyer cannot agree upon a single appraiser, then, within twenty (20) days after all of the applicable options have been exercised, Seller and Buyer shall each appoint an appraiser.

(c) Within forty-five (45) days after all of the applicable options have been exercised, each appraiser shall make a determination of the fair market value of the

Seller's Ownership Interest. If the higher of the two values is not 120% or more of the lower value, the fair market value of the Seller's Ownership Interest shall be deemed to be the average of the two values. If the higher value is 120% or more of the lower value, then, within fifty (50) days after all of the applicable options have been exercised, the two appraisers shall each appoint a third appraiser.

(d) The third appraiser shall determine the fair market value of the Ownership Interest within seventy (70) days after all of the applicable options have expired or been exercised. If the third appraised value is higher than the first two, the higher of the first two values shall be used as the fair market value of the Seller's Ownership Interest; if the third value is lower than the first two values, the lower of the first two values shall be used as the fair market value of the Seller's Ownership Interest; if the third value is equal to or between the first two values, the third value shall be used as the fair market value of the Seller's Ownership Interest.

(e) Each appraiser shall be reasonably experienced in valuing interests in businesses similar to the business conducted by the Company. Seller and Buyer shall equally bear the costs and expenses of the appraisal. If the Buyer consists of multiple parties, the Buyer's costs and expenses shall be prorated among them based on the portion of the Seller's Ownership Interest each is purchasing.

(f) A transferee who acquires all or part of an Ownership Interest in compliance with this Article 11 shall become a substitute Member with respect to any Governance Rights included as part of such transferred Ownership Interest.

ARTICLE 12 DISSOLUTION AND TERMINATION

12.1. Dissolution Events. The Company shall be dissolved only upon the occurrence of any of the following events:

- (a) Any event specified in the Articles;
- (b) By action of the organizers pursuant to § 48-245-201 of the Act or by the Members pursuant to § 48-245-202 of the Act;
- (c) By order of a court pursuant to §§ 48-245-901 or 48-245-902 of the Act;
- (d) By action of the Secretary of State pursuant to § 48-245-302 of the Act; or
- (e) A merger in which the Company is not the surviving organization.

The Company is not dissolved and is not required to be wound up by reason of any event that terminates the continued membership of a Member if there is at least one (1) remaining Member.

12.2. Notice of Dissolution. If the Members agree to dissolve the Company pursuant to § 48-245-202 of the Act, or if the Company is dissolved upon the occurrence of an event specified in the Articles, the Company shall file with the Tennessee Secretary of State a notice of dissolution. The Company shall cease to carry on its business, except to the extent necessary (or appropriate) for the winding up of the business of the Company. The Members shall retain the right to revoke the dissolution in accordance with § 48-245-601 of the Act and the right to remove or appoint Governors and managers. The Company's existence shall continue until the dissolution is revoked or articles of termination are filed with the Tennessee Secretary of State.

12.3. Procedure in Winding Up. If the business of the Company is to be wound up and terminated other than by merging the Company into a surviving business entity, the following procedures shall be followed:

(a) When a notice of dissolution has been filed with the Tennessee Secretary of State, the Board, or the managers acting under the direction of the Board, shall proceed as soon as possible to collect or make provision for the collection of all known debts due or owing to the Company, including unperformed contribution agreements, and except as provided in § 48-245-502 of the Act (relating to known and unknown claims), pay or make provision for the payment of all known debts, obligations, and liabilities of the Company according to their priorities under § 48-245-1101 of the Act.

(b) When a notice of dissolution has been filed with the Tennessee Secretary of State, the Board may sell, lease, transfer, or otherwise dispose of all or substantially all of the property and assets of the Company without a vote of the Members. Any Net Profits or Net Losses from such sales shall be allocated to the Equity Owners' Capital Accounts in accordance with Article 10 hereof.

(c) All tangible or intangible property, including money, remaining after the discharge of the debts, obligations, and liabilities of the Company shall be distributed to the Equity Owners in accordance with the Capital Account balances of the Equity Owners. The assets may be distributed in cash or in kind as determined by the Board. Any assets distributed in kind shall be deemed to have been sold as of the date of dissolution for their fair market value, and the Capital Accounts of the Equity Owners shall be adjusted pursuant to the provisions of Article 10 of this Operating Agreement to reflect the deemed sale. Distributions to the Equity Owners in respect of their Capital Accounts shall be made in accordance with the time requirements set forth in Section 1.704-1(b)(2)(ii)(b)(2) of the Treasury Regulations.

(d) If any Equity Owner has a Deficit Capital Account at the time of a liquidation of the Company within the meaning of Section 1.704-1(b)(2)(ii)(g) of the

Treasury Regulations (after giving effect to all contributions, distributions, allocations and other Capital Account adjustments for all taxable years, including the year during which the liquidation occurs), such Equity Owner shall not be obligated to make any Capital Contribution, and the negative balance in the Member's Capital Account shall not be considered a debt owed by such Equity Owner to the Company or to any other Person for any purpose whatsoever.

12.4. Articles of Termination. The Company shall file its Articles of Termination with the Secretary of State upon its dissolution and the completion of winding up of its business.

12.5. Return of Contribution Nonrecourse to Other Equity Owners. Upon dissolution, except as provided by law or as expressly provided in this Operating Agreement, each Equity Owner shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company's assets remaining after the payment or discharge of the debts and liabilities of the Company are insufficient to return the cash contribution of one or more Equity Owners, such Equity Owners shall have no recourse against any other Equity Owner.

12.6. Withdrawal of a Member. Neither A&L nor MLGW shall withdraw from the Company without the other's approval, subject to the right of each Member to sell or otherwise dispose of its Ownership Interest in accordance with Article 11.

ARTICLE 13 INDEMNIFICATION

13.1. Definitions. As used in this Article, unless the context otherwise requires:

(a) "Expenses" include counsel fees.

(b) "Liability" means the obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan), or reasonable Expenses incurred with respect to a Proceeding.

(c) "Official Capacity" means the position of Governor and the elective or appointive office or position held by a manager, member of a committee of the Board, or the employment or agency relationship undertaken by an employee or agent on behalf of the Company. "Official Capacity" does not include service for any other foreign or domestic corporation, limited liability company, partnership, joint venture, trust, employee benefit plan, or other enterprises.

(d) "Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a Proceeding.

(e) “Proceeding” means any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, and whether formal or informal.

(f) “Responsible Person” means an individual who is or was a Governor of the Company, or an individual who, while a Governor of the Company, is or was serving at the Company’s request as a governor, manager, director, officer, partner, trustee, employee, or agent of another foreign or domestic limited liability company, corporation, partnership, joint venture, employee benefit plan or other enterprise. A Governor is considered to be serving an employee benefit plan at the Company’s request if the Governor’s duties to the Company also impose duties on, or otherwise involve services by the Governor to the plan or to participants in or beneficiaries of the plan. “Responsible Person” includes, unless the context requires otherwise, the estate or personal representative of a Responsible Person.

(g) “Special Legal Counsel” means counsel who has not represented the Company or a related limited liability company, or a Governor, manager, member of a committee of the Board, agent or employee, whose indemnification is in issue.

13.2. Authority to Indemnify. The Company shall indemnify an individual made a Party to a Proceeding because such individual is or was a Responsible Person against Liability incurred in the Proceeding if the individual acted in good faith and reasonably believed, in the case of conduct in such individual’s Official Capacity with the Company, that such individual’s conduct was in the Company’s best interest, and in all other cases, that such individual’s conduct was at least not opposed to the Company’s best interests, and in the case of any criminal Proceeding, had no reasonable cause to believe such individual’s conduct was unlawful.

(a) A Responsible Person’s conduct with respect to an employee benefit plan for a purpose such person reasonably believed to be in the interests of the participants in and beneficiaries of the plan is conduct that satisfies the requirements of this Section 13.2.

(b) The termination of a Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the Responsible Person did not meet the standard of conduct described in this Section 13.2.

(c) Except as provided in Section 13.5 below, the Company may not indemnify a Responsible Person in connection with a Proceeding by or in the right of the Company in which the Responsible Person was adjudged liable to the Company, or in connection with any other Proceeding charging improper personal benefit to such Responsible Person, whether or not involving action in such person’s Official Capacity, in

which such person was adjudged liable on the basis that personal benefit was improperly received by such person.

13.3. Mandatory Indemnification. The Company shall indemnify a Responsible Person who was wholly successful, on the merits or otherwise, in the defense of any Proceeding to which the person was a Party because the person is or was a Responsible Person of the Company against reasonable Expenses incurred by the person in connection with the Proceeding.

13.4. Advances for Expenses. The Company shall pay for or reimburse the reasonable Expenses incurred by a Responsible Person who is a Party to a Proceeding in advance of final disposition of the Proceeding if (i) the Responsible person furnishes the Company a written affirmation of good faith belief that the Person has met the standard of conduct described in Section 13.2; (ii) the Responsible Person furnishes the Company a written undertaking, executed personally or on such person's behalf, to repay the advance if it is ultimately determined that the Person is not entitled to indemnification; and (iii) a determination is made that the facts then known to those making the determination would not preclude indemnification under this Article. The undertaking required by this section must be an unlimited general obligation of the Responsible Person but need not be secured and may be accepted without reference to financial ability to make repayment. Determinations and authorizations of payments under this section shall be made in the manner specified in Section 13.6.

13.5. Court-Ordered Indemnification. A Responsible Person of the Company who is a Party to a Proceeding may apply for indemnification to the court conducting the Proceeding or to another court of competent jurisdiction. On receipt of an application, the court, after giving any notice the court considers necessary, may order indemnification if it determines:

(a) The Responsible Person is entitled to mandatory indemnification under Section 13.3, in which case the court shall also order the Company to pay the Responsible Person's reasonable Expenses incurred to obtain court-ordered indemnification; or

(b) The Responsible Person is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not the person met the standard of conduct set forth in Section 13.2 or was adjudged liable as described in Section 13.2(c), but if the person was adjudged so liable the person's indemnification is limited to reasonable Expenses incurred.

13.6. Determination and Authorization of Indemnification. Except as provided in Section 13.5, the Company may not indemnify a Responsible Person under Section 13.2 unless authorized in the specific case after a determination has been made that indemnification of the Responsible Person is permissible in the circumstances because the person has met the standard of conduct set forth in Section 13.2. The determination shall be made:

(a) By the Board by majority vote of a quorum consisting of Governors not at the time Parties to the Proceeding;

(b) If a quorum cannot be obtained under Section 13.6(a), by majority vote of a committee duly designated by the Board (in which designation Governors who are parties may participate), consisting solely of two (2) or more Governors not at the time parties to the Proceeding;

(c) By independent Special Legal Counsel selected by the Board or by a committee in the manner prescribed in Section 13.6(a) or (b), or if a quorum of the Board cannot be obtained under Section 13.6(a) and a committee cannot be designated under Section 13.6(b), selected by majority vote of the full Board (in which selection Governors who are parties may participate); or

(d) By the members of the Company, but ownership interests owned by or voted under the control of members who are at the time parties to the Proceeding may not be voted on the determination.

Authorization of indemnification and evaluation as to reasonableness of Expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by Special Legal Counsel, authorization of indemnification and evaluation as to reasonableness of Expenses shall be made by those entitled under Section 13.6(c) to select counsel.

13.7. Indemnification of Managers, Employees and Agents.

(a) A manager of the Company who is not a Responsible Person is entitled to mandatory indemnification under Section 13.3, and is entitled to apply for court-ordered indemnification under Section 13.5, in each case to the same extent as a Responsible Person.

(b) The Company may indemnify and advance Expenses to a manager, employee, independent contractor or agent of the Company who is not a Responsible Person to the same extent as a Responsible Person.

(c) The Company may also indemnify and advance Expenses to a manager, employee, independent contractor or agent who is not a Responsible Person to the extent, consistent with public policy, provided by general or specific action of the Board, or by contract.

13.8. Insurance. The Company shall purchase and maintain insurance on behalf of an individual who is or was a Responsible Person, manager, employee, independent contractor, or agent of the Company, or who, while a Responsible Person, manager, employee, independent

contractor, or agent of the Company, is or was serving at the request of the Company as a Responsible Person, manager, partner, trustee, employee, independent contractor, or agent of another foreign or domestic limited liability company, corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against Liability asserted against or incurred by such person in that capacity or arising from such person's status as a Responsible Person, manager, officer, employee, independent contractor, or agent, whether or not the Company would have power to indemnify such person against the same Liability under Section 13.2 or 13.3.

13.9. Application of Article. The indemnification and advancement of Expenses provided by this Article shall not be deemed exclusive of any other rights to which a Responsible Person seeking indemnification or advancement of Expenses may be entitled, whether contained in the Act, the Articles, or this Operating Agreement, or when authorized by the Articles or this Operating Agreement, in a resolution of members, a resolution of Governors, or an agreement providing for such indemnification; provided, that no indemnification may be made to or on behalf of any Responsible Person if a judgment or other final adjudication adverse to the Responsible Person or officer establishes such person's Liability for any breach of the duty of loyalty to the Company or its members, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or under § 48-237-101 of the Act (relating to wrongful distributions). Nothing contained in this section shall affect any rights to indemnification to which the Company's personnel, other than Responsible Persons, may be entitled by contract or otherwise under law. This section does not limit the Company's power to pay or reimburse Expenses incurred by a Responsible Person in connection with such person's appearance as a witness in a Proceeding at a time when such person has not been made a named defendant or respondent to the Proceeding.

ARTICLE 14

MISCELLANEOUS PROVISIONS

14.1. Notices. Except as otherwise provided in this Operating Agreement, all notices, requests, demands, letters, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered personally, (b) mailed, certified mail with postage prepaid, (c) sent by next-day or overnight mail or delivery or (d) sent by facsimile.

14.2. Books of Account and Records. The manager shall keep complete records and books of account at the principal executive office of the Company, which shall be open to the reasonable inspection and examination by the Equity Owners and their duly authorized representatives during reasonable business hours.

14.3. Application of Law. This Operating Agreement shall be governed by the laws of the State of Tennessee. To the extent permitted by law, the courts of Shelby County, Tennessee shall be the exclusive forum for the litigation of any disputes under this Operating Agreement.

14.4. Amendments. This Operating Agreement may not be amended without the unanimous approval of the Members.

14.5. Heirs, Successors and Assigns. This Operating Agreement shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Operating Agreement, their respective heirs, legal representatives, successors and assigns.

14.6. Creditors and Other Third Parties. None of the provisions of this Operating Agreement shall be for the benefit of or enforceable by any third parties, including, without limitation, any creditors of the Company.

14.7. Counterparts. This Operating Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

14.8. Limitation of Liability. The obligations of MLGW under this Operating Agreement shall be limited to the extent required by applicable state and federal law and shall be further subject to the second sentence of Section 1 of the Wholesale Power Contract between MLGW and the Tennessee Valley Authority dated December 26, 1984 and to Paragraph 1 of the Schedule of Terms and Conditions attached to the Wholesale Power Contract (and to substantially similar anti-commingling provisions in any subsequent contract or amended contract between TVA and MLGW). Without limitation of the foregoing, A&L acknowledges that (i)

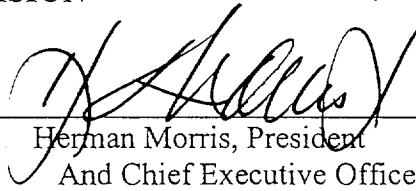
MLGW's liability for any tortious acts or omissions or breaches of contract under this Operating Agreement shall be limited to its Ownership Interest in the Company and the other resources and assets within, or allocated to, the Telecommunications Division of the Electric Division of MLGW; (ii) neither the Electric Division (except for its Telecommunications Division), the Gas Division, nor the Water Division of MLGW assumes any financial obligation under this Operating Agreement; and (iii) neither the tax revenues nor the taxing power of the City of Memphis, Tennessee are in any way pledged or obligated under this Operating Agreement.

14.9 Entire Agreement. This Operating Agreement constitutes the entire agreement and understanding of the parties hereto with respect to the subject matter hereof, and all prior and concurrent agreements, understandings, representations and warranties with respect to such subject matter, whether written or oral, are and have been merged herein and superseded hereby.

THIS AGREEMENT has been adopted by the undersigned on the day and year first above written.

**MEMPHIS LIGHT, GAS & WATER
DIVISION**

By: _____


Herman Morris, President
And Chief Executive Officer

A&L NETWORKS-TENNESSEE, LLC

By: _____

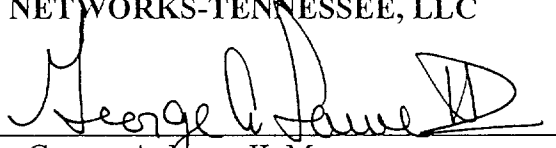

George A. Lowe II, Manager

EXHIBIT F

Ward Huddleston, Jr.

Mr. Huddleston has over 16 years of experience working for major telecommunications providers as well as start-up telecommunications firms. During this time Mr. Huddleston has actively participated in almost all aspects of management, including finance, marketing, and operations. Prior to his involvement in the telecommunications industry, he was a practicing attorney and has an extensive educational background.

Education

- East Tennessee State University Johnson City, Tennessee, Bachelor of Science Degree Law Enforcement Criminal Justice, June 1973.
- University of Tennessee at Knoxville, College of Law, Doctor of Jurisprudence Degree, December, 1975.
- Bristol University, Bristol Tennessee, Masters of Science in Business, May 1987.
- University of Southern California Center for Telecommunications, Los Angeles, California, Advanced Management Program for Telecommunications, April, 1990.
- University of Pennsylvania, Wharton School of Business Executive Program, Philadelphia, Pennsylvania, Strategy for Finance and Marketing, September, 1990.

Work Experience

1999, A&L Networks LLC, Director of Project Development

- Managing the development of a carrier's carrier telecommunications partnership in Memphis, TN with Memphis Light, Gas & Water (MLG&W).
- Supported the development of a business case led by Arthur D. Little and managed the participation of MLG&W and A&L Networks.
- Developing vendor relationships to ensure timely delivery of the network and supporting organization.
- Managing the regulatory process with the Tennessee Regulatory Authority to successfully obtain a Competitive Local Exchange Carrier license.
- Developed the organizational structure to support operation of a Next Generation Network.
- Lead the development of the Next Generation Network to avoid acquisition of legacy systems.

1998 – 1999, G.C. Services LP, Senior Vice President of Marketing

- Directed national sales for teleservices, outsourcing and accounts receivable management.
- Acquired twelve new national accounts.

- Initiated and implemented plan for greater penetration of outsourcing and collection markets.
- Spearheaded the sale of a \$50M telecommunications account.
- Successfully increased outsourcing revenues by more than 300% in 1999.
- Introduced a new sales training program.

1991-1998, Sprint Publishing and Advertising, Inc., Vice President of Sales

- Led the daily activities of a \$400M division of Sprint.
- Developed sales infrastructure for new division of Sprint, including integrating three distinct organizations and cultures into one.
- Led rollout of Sprint Quality Process to the sales organization.
- Managed 200 direct and 400 indirect sales and support personnel in 19 states with major markets in Chicago, southwest Florida and eastern North Carolina.
- Managed the interface with four reporting departments, which included National Sales, Local Sales (premise and telesales), Sales Administration and Sales Training.
- Instituted world class sales training and reduced proprietary sales force turnover by 40% within one year.
- Successfully introduced 28 new products into 17 new markets in 19-state range.
- Evaluated sales channel effectiveness and re-engineered local telecommunications sales channels.
- Successfully redesigned promotion and advertising analysis and strategy for \$5.5 billion local telecom division of Sprint through a task force appointed by President of Sprint LTD.

1989-1990, United Telecommunications, Executive Assistant to the President of the Local Telecommunications Division

- One of 3 executives chosen out of 40,000 employees for the Leadership Challenge Program, which was designed to develop high potential candidates as leaders for the organization.
- Assisted in the management and development of the strategic plan for the local telecom division in a supporting and a developmental role as part of the leadership challenge program.
- Rotated among all major departments including operations, network, marketing, finance and human resources.
- Developed executive employee successions plan and evaluated all positions above to ensure appropriate fit within the organizational scheme.
- Coordinated the budgets among nine operating telephone companies for final approval.

DAVID B. ORI

Mr. Ori is a seasoned financial manager with over 20 years of diversified financial and operational experience most recently in the Telecommunications Industry. His experience includes a strong emphasis in start-up implementation which includes initial public offering (IPO) and acquisition activities. He has strong financial team building and leadership qualifications.

EDUCATION

- Bachelor of Science, Finance, University of Illinois
- Masters of Management, Accounting/Finance, Northwestern University
- CPA State of Illinois

RECENT EXPERIENCE (1991-1999)

- Financial Consultant (RHI Management Resources) providing diversified financial services including venture financing, due diligence, cost analysis, process controls/improvements and budgeting.
- Assistant Vice President Manufacturing/ Operations for a Telecom Equipment Manufacturer (Celcore Inc.). Managed functional areas of technical services, systems integration, program management, logistics, manufacturing, purchasing and inventory control.
- Chief Financial Officer/Director of Operations for a Telecom Equipment Manufacturer (Plexsys International Corp.). Directed tax, audit, planning, controllership, insurance and benefits. Operationally managed manufacturing, systems integration, field services and inventory functions.

PRIOR EXPERIENCE (1973-1991)

- Assistant Treasurer for an OEM Automotive Products Manufacturer (Siegel-Robert Inc.). Responsible for internal audit, budgeting, risk management, benefits, pension investments.
- Vice President Controller for a Medical Products Manufacturer (Medline Industries Inc.). Directed credit, general accounting, budgeting, financial reporting and overall tax compliance.
- Chief Financial Officer for an Electrical Products Manufacturer (Bridge Products Inc.). Responsibilities included planning, cash management, taxes, debt management and systems control.
- Vice President Controller for a Electrical/Computer Products Manufacturer (Kearney National Inc.).
- Plant Controller, Cost Manager, Operations/Financial Analyst for Electrical Products Manufacturer (Gould Inc.).
- Accounting Supervisor for Major Banking Entity (American National Bank & Trust Company of Chicago).

1 Profile of Arthur D. Little

For more than a century, Arthur D. Little has been a leader in the consulting industry. Founded in 1886, it was the world's first consulting firm. Today, it is one of the world's premier consulting firms, with more than 3,000 staff members based in 52 offices and laboratories around the globe.

1.1 Executive Summary

We are distinguished from our competitors by the caliber of our people and the breadth and depth of our experience. We are also unique in our commitment to helping our clients reinvent their organizations, enhance their capacity for learning and change, and create lasting value for their customers, employees and owners.

Our principles and our way of working – side by side with our clients – have earned Arthur D. Little continuing relationships with our clients. These enduring collaborations testify to our clients' trust in our values, our distinctive capabilities, and the results we achieve together. Arthur D. Little delivers long-lasting value by improving a business' ability to change and learn in order to achieve competitive advantage. We help clients define their vision, set their strategies, improve their processes, develop their resources, and strengthen their organizations. We deliver results quickly, and we deliver results that improve progressively.

Our client's interests come first. We prize our integrity. Our commitment to helping our clients find effective solutions is based on more than a century of experience rooted in creativity, curiosity, and analytical rigor. We come to our clients with a global fund of knowledge and experience in nine industries – a broad and deep understanding of their businesses, markets, and technologies. When we finish our work, we see to it that implementation includes the transfer of knowledge. We do all we can to make sure that what we have learned together stays – so that our clients not only improve, but have the capacity to continue to improve.

<i>Corporate Value Proposition</i>	Innovation is the fundamental source of growth renewal and reward. Arthur D. Little's Spectrum of Innovation – our integrated expertise in strategy formation, process improvement, change management, and technology and product development – helps our clients establish a sustainable innovation premium, creating a strong financial performance and accelerated growth.
<i>Our Mission</i>	We are committed to providing outstanding value for our clients, rewarding careers for our staff, and excellent performance for our owners.
<i>Commitment to our Clients</i>	We are dedicated to our clients' success and define our own success in terms of theirs. We will strive to understand their needs and to exceed their expectations by delivering practical advice, effective implementation, and innovative product development – always providing outstanding value. And we will continuously renew our resources so that we bring our clients the most up-to-date methodologies and know-how.
<i>Commitment to our Staff</i>	At Arthur D. Little, the staff members are the firm. We value our own professional well-being and that of our colleagues. We also value our tradition as builders – of outstanding products, services, companies, and businesses. We will provide challenging career paths with ample opportunities for growth and professional development. We will also continue to build our staff capabilities through training, career planning, and effective recruitment. We will uphold our tradition of nurturing creativity, innovation, and teamwork. And we will honor excellence and reward contribution on the part of both individuals and groups.
<i>Commitment to our Owners</i>	As the owners of Arthur D. Little, we are personally committed to our company's continuing prosperity and growth. We will strive to enhance the value of the company both by operating profitably and growing in our chosen areas and by expanding into promising new ones. We will continue to work together in close cooperation as one company in spirit and purpose worldwide.
<i>Commitment to Quality</i>	We believe that we can best serve our clients, our staff, and our owners by always improving the quality of everything we do. We are committed to the process of becoming a continuously self-improving organization.
<i>Commitment to Integrity</i>	We will make no ethical compromise in pursuit of these goals.

1.2 Services Provided

Arthur D. Little is a full service consulting firm that offers a wide range of services to our clients as listed below:

<i>Strategy</i>	Building and Implementing Ambition Driven Strategies Managing the Corporate Portfolio Developing and Implementing Strategies for Globalization Crafting and Managing Collaborative Strategies Enhancing Strategic Management Processes Planning, Executing and Capturing the Value of Mergers and Acquisitions Measuring Strategic Performance Managing for Value Managing Uncertainty and Risk
<i>Organization</i>	Change Management Systems Thinking Organizational Design Human Resource Development Team Learning Leadership Knowledge Processes
<i>Operations/Supply Chain Management</i>	Supply Chain Management Manufacturing Improvement Operations Strategy Benchmarking and Best Practices Business Process Redesign Employee Skill Building Statistical Analysis Engineering Process Improvement
<i>Information Management</i>	IS Planning Customer Management Systems Enterprise Systems Knowledge Management Systems IS Organization IS Audit Co-Management
<i>Technology and Innovation Management</i>	Innovation Management Product Creation and Development Management Resource and Competency Management Technology Strategy and Management Technology Valuation

Shared Value Creation

<i>Technology Creation and Exploitation</i>	Contract Research and Development Technology Assessment and Valuation Internal R&D on ADL-Invented Emerging Technologies Invention Management and Licensing
<i>Design and Development</i>	Product Development Manufacturing Process Development Manufacturing Machinery Development System Development
<i>Corporate Finance</i>	Commercial Due Diligence Business Plan Preparation Transaction Strategic (Negotiation) Advise Information Memorandum Preparation License Bid Preparation Valuation Merger and Alliance Advise Financial Modeling Workouts/Restructuring
<i>Marketing and Customer Management</i>	Customer Segmentation and Targeting Product Selection and Bundling Customer Acquisition and Retention Marketing, Sales, and Customer Service Effectiveness Customer Feedback and Learning Customer-Focused Organization and Culture
<i>Program and Project Management</i>	Strategy Organization Planning Designing Execution Operation
<i>EHS Management</i>	Management Systems Development Management Systems Implementation EHS Auditing Audit Program Design/Critique
<i>Environmental Science and Technology</i>	Impact/Risk Management Containment Asset Management Advanced Chemical Fingerprinting and Liability Allocation Technology Development Technology-Based Assessments

EHS Permitting and Planning
Sustainable Development Implementation
Litigation Support and Expert Testimony

Safety and Risk Hazard and Risk Assessment
Occupational Health and Safety
Ergonomics and Human Factors

We provide these services to nine core industries that we have chosen to serve:

- TIME (Telecommunications, Information, Media and Entertainment)
- Utilities
- Energy
- Chemicals
- Consumer Industries
- Health Care
- Resources/Engineering and Manufacturing
- Transportation and Automotive
- Public Sector

1.3 Casework in the TIME Industries

Around the globe, Arthur D. Little's TIME consulting practice serves industry leaders, high-growth entrepreneurial firms, and ambitious start-ups—companies including Nokia, AT&T, Northern Telecom, Pacific Telesis, Deutsche Telekom, Bell South, Motorola, RR Donnelly, Apple Japan, and BBC. Here's a sampling of our casework.:

- For one of Asia's incumbent telecom operators, we developed a business tender for rebuilding a neighboring country's telecom infrastructure.
- In Europe, we worked with a leading telecom operator to assess the opportunities and risks in electronic commerce and to investigate diversification opportunities in the Far East.
- For a cable company in the U.S., our Communications and Information Technologies group quantified the attractiveness of the Personal Communications System (PCS) marketplace by developing a decision-making framework.
- For a U.S.-based independent service provider, we provided guidance on mergers and joint ventures in areas of research and development.
- For one of the European front-runners in equipment manufacturing, we developed a purchasing strategy and designed product development processes.
- For a major investment bank, our Communications and Information Technologies group assessed the risk of a trans-Atlantic cable system before syndicating a \$300 million debt loan.
- For a U.S. manufacturer, we developed a demand forecast and roll-out strategy for its cellular operations in Brazil.
- For a media company in South America, we planned and implemented the redesign of business processes, the corporate organization structure, and the company's human resources strategy.
- For a major North American content provider, we developed an enterprise-wide technology plan specializing in financial information.

- For the UK arm of one of the world's biggest investment banks we carried out in-depth reviews of a paging company, in relation to debt financing.
- For a South American government ministry, we provided guidance in the preparation of a national telecommunications plan.

The members of the TIME practice have strategic, operational and technical expertise in all facets of the telecommunications industry, as shown below.

Examples of Expertise			
	Strategic	Operational	Technical
Local and Long Distance	<ul style="list-style-type: none"> • Customer segmentation • ILEC, CLEC, IXC entry strategies • Sales and distribution channel strategy and implementation • Financial M&A valuation 	<ul style="list-style-type: none"> • Post merger integration • Optimization of customer-facing processes • Capabilities to support bundling strategies • Call center operations and design 	<ul style="list-style-type: none"> • OSS/BSS system • Operations support infrastructure development for advanced telco solutions • Network planning and management tools • Fiber-optic network construction assessment
Wireless	<ul style="list-style-type: none"> • Cellular license valuation and bid preparation • Wireless market entry strategies • Offer and channel development 	<ul style="list-style-type: none"> • Churn management • Mobile network development • Business process redesign 	<ul style="list-style-type: none"> • Wireless LAN, WAN and MAN engineering and implementation • Intelligent Network technology research
Broad-band	<ul style="list-style-type: none"> • Satellite versus terrestrial market entry analysis • Economics of broadband technologies 	<ul style="list-style-type: none"> • xDSL, cable modem, and high speed data network implementation • Digital signal processing analysis 	<ul style="list-style-type: none"> • Development of regional hub/passive coaxial network architecture • Satellite-based mobile communications technologies and deployment
Internet	<ul style="list-style-type: none"> • Electronic commerce strategies • Business planning for ISP market entry • Partnership/alliance strategies 	<ul style="list-style-type: none"> • Supply chain integration with electronic commerce strategies 	<ul style="list-style-type: none"> • Internet video technology and infrastructure/backbone research • Next generation protocol technologies

While Arthur D. Little provides consulting services on issues affecting all aspects of business, there are particular types of services that we do not provide directly. If these services are required as part of an assignment, we subcontract for them on behalf of our client as may be appropriate. These services that are not provided directly include:

- Legal representation (beyond legal expert and testimony services)
- Financial accounting and audits
- Human resource areas: executive search, diversity consulting, benefits management
- Advertising
- Extensive telephone surveys/market research
- Compensation surveys
- Full-scale IT design and implementation

-
- Detailed plant engineering, design and construction services

Joel D. Halvorson

Mr. Halvorson is a Principal with Arthur D. Little and has more than ten years of experience consulting, primarily in the electric and gas utility industry. During this time, he has led numerous engagements for several utilities (both investor-owned and municipal utilities) across the United States and around the world. His experiences have included work in the following areas:

- Strategic Planning
- Telecommunications Business Planning
- Business Process Design/Reengineering
- Operations Improvement
- Information Planning

Education

- Masters of Science degree in statistics, Iowa State University, Ames IA
- Bachelor of Arts degree in mathematics and economics with a concentration in statistics, St. Olaf College, Northfield MN

Representative Experience

- Led the implementation of the business partnership between Memphis Light, Gas & Water and A&L Networks. The effort included the development of a comprehensive business case, including a market assessment and a network plan. In addition, the project team was responsible for completion of the operating agreement between the parties, obtaining approvals from the utility board, developing a financing strategy, and all areas associated with operational start-up of a new telecommunications business.
- Developed a telecommunications strategy for a large, investor-owned utility that was considering growth alternatives through new business ventures. The engagement included an analysis of potential partners, products and services that could be offered on a wholesale basis, a detailed competency analysis of the utility's ability to deliver these products and services and an analysis of organizational implications with respect to the electric and gas utility.
- Developed an extensive report for a large investor-owned utility (IOU) that analyzed the implications of competition for the utility and the solutions offered by implementation of an advanced telecommunications system including enhanced customer services (CATV, distance learning, and telephony), demand-side management, and distribution automation opportunities. The study also included an assessment of the public policy and regulatory issues associated with utility investment in the telecommunication area.
- Assisted a large municipal utility with an evaluation of potential alliances with large telecommunications companies. The engagement tasks have included a financial

analysis of each proposal, risk assessment for the financial models, detailed cost analysis, valuation of the utility brand name, and an evaluation of legal and governance implications of each partnership.

- Led a re-design effort for the Order Fulfillment process for a large municipal electric utility that is facing increased competition and required a renewed emphasis on customer service as a critical competitive advantage. The engagement included an intense training session for the reengineering teams, best practice assessment, identification of customer requirements and a review of information technology developments. The focus of the effort included reengineering of the new service, emergency response and asset management processes. The new design resulted in a 40% savings in the total cost of the process and dramatic improvements in overall cycle time. In addition, the engagement established a new culture of continuous improvement at the utility, which has led to several new initiatives.
- Assisted a new company in New Zealand with the design of business processes to provide competitive advantage in a newly competitive wholesale generation market. This engagement included identification of organizational requirements, incorporation of best practices from global industries, leading corporate teams in development of process designs, and development of business cases for the chief executive, management team and board.
- Led a review of the Information Technology (IT) organization within a major electric and gas utility in the eastern U.S. The current organization was compared to “best practices” outside the utility industry, and a gap analysis was completed. The assessment included 65 best practice attributes that were separated into five high level categories: Management Activities, Service Development Activities, Service Delivery Activities, Architecture Activities, and Significant Projects (Y2K and enterprise systems). Each of these categories were further divided into sub-categories. The gap analysis included a summary of nearly 60 gaps.
- Developed a strategy for a leading research organization in the energy industry. The effort included both an internal situation assessment and external market assessment. The internal situation included a review of more than 400 internal documents and a series of interviews with the business unit managers. The external assessment included the development and execution of an Internet-based survey that included more than 8,000 recipients. Also, a select list of industry “thought leaders” was identified and ADL completed a series of telephone interviews to gain further insight on the external market. Market research was also completed to understand the current and future market size (in terms of revenue) for R&D services.
- Provided direct support to the executive management team of a large electric and gas company to determine the role of the regulated utility versus the retail marketing division within the restructured electric utility environment. The project also included comprehensive industry research for lessons learned from other competitive markets, the development of a regulated product and service strategy and the establishment of a new product development process within the utility and the retail marketing division.

- Completed the development of a strategic information planning process for the Electric Power Research Institute (EPRI) and then implemented the process at several utilities. The process focuses on the development of information systems and telecommunication solutions that are driven by and directly linked to the enterprise level strategies.
- Developed a Strategic Implementation Plan (SIP) for a large electric and gas utility in the U.S. that was under tremendous pressure, both internally and externally, to cut costs. The engagement included an extensive analysis of several information technology projects that exceeded a total investment requirement of \$700 million. The SIP included an analysis of each project's cost, benefit, resource requirements and user impacts (such as training and assimilation). The scope of each project was also carefully analyzed to determine functional gaps and overlaps in the overall program. The SIP resulted in a savings of more than \$200 million and a significant cultural change among the project managers and their staff.
- Developed a comprehensive energy sourcing strategy for a large investor-owned utility that included traditional supply resources, renewables, and demand-side management technologies. The strategy not only incorporated traditional regulatory requirements into the process but also leveraged the window of opportunity to the advantage of the utility and its future unregulated business units. The engagement included development of the strategy, preparation of the RFPs and on-going support of the analysis and conclusions.

Before joining Arthur D. Little, Mr. Halvorson was a senior manager with A.T. Kearney in the Utilities Practice. He was responsible for strategy, process, organization and information planning engagements. Prior to joining A.T. Kearney, he was senior consultant for Stone & Webster Management Consultants, Inc. In addition to completing numerous engagements for several utilities across the United States, he has also managed the development of a suite of utility planning products, which were jointly developed with the Electric Power Research Institute (EPRI).

Jerry E. Freeman

Jerry Freeman is a Consultant in the Telecommunications, Information, Media/Entertainment and Electronics (TIME) Practice in Arthur D. Little's Arlington, Virginia office. Mr. Freeman's major emphasis is on working with communications service providers and equipment manufacturers in the telecommunications industry with a functional focus on customer management and strategy.

Education

- M.B.A. from the University of Michigan Business School
- B.S. in Mathematics from Morehouse College.

Representative Experience

- For a telecommunications start up, led the execution of the business plan. His duties included management and oversight for the building of one of the country's first local exchange Next Generation Networks (NGN), the implementation of all support processes and systems, the development of marketing plans and objectives and the support of all outsourcing and staffing relationships.
- For a division of a global telecommunications equipment provider, Mr. Freeman led an engagement to plan and implement a telecommunication outsourcing organization. The division went from small project revenues of \$12 million annually to major outsourcing contract revenues of over \$100 million.
- For a leading enterprise resource planning (ERP) software provider, led a case that focused on reorganizing the customer support center from a tiered to a team-based approach allowing more efficient service and higher customer satisfaction
- For a major communications service provider, Mr. Freeman aided in analyzing the viability of a suite of proprietary communications services including e-mail, enhanced fax, electronic data interface (EDI) and Telex, from the customer viewpoint. This resulted in the segmentation of those customers into three segments of loyal, wavering and lost customer segments
- For a large telecommunications equipment manufacturer, lead an engagement to respond to an RFP for providing telecom network outsourcing to a global automotive company
- For a major communications service provider, Mr. Freeman helped create an enterprise-wide model for customer contact management via cross-industry benchmarking. The model is designed to deliver consistent and seamless integration of customer contact points across the many channels in which the service provider touches the customer
- For a start-up wireless construction management firm, Mr. Freeman was instrumental in developing the business plan and strategy which allowed the firm to secure financing and major contracts

- For a major cable television service provider, segmented consumer markets in preparation for video on demand and enhanced fiber optic cable offerings

Before joining Arthur D. Little, Mr. Freeman worked in brand management at The Procter & Gamble Company, in Geographic information systems and network planning at U S WEST (Minneapolis and Denver) and in outside plant engineering at BellSouth (Atlanta).

Barbara LaRue

Ms. LaRue is a Manager in the Communications and Information Industry section of Arthur D. Little's Technology and Innovation Practice. With over 25 years of experience in information technology and organizational change management, she has helped a broad range of organizations to use technology strategically and align information system and telecommunications practices with customer facing processes.

Education

- Ms. LaRue holds a Bachelor of Arts degree in Education and Social Sciences from the University of Michigan.

Representative Experience

- Business process redesign for a major European telecommunications provider. The company was engaged in a program to modernize its billing system to enhance its position in a developing competitive environment. As part of the modernization program, the company sought to align its customer service and billing processes to take full advantage of the sophisticated functionality and advanced technological capabilities of the new billing system. Ms. LaRue led a joint team of Arthur D. Little and client staff in analyzing the major customer service business processes (billing, collections, customer inquiries and complaints). The team developed opportunities for improvements in organization and human and information systems resource utilization. A business case was developed and improvements in cost, quality, uncollectibles, cash flow and processing time were quantified.
- For a major international telecommunications carrier performed an internal information technology (IT) assessment to determine the company's IT preparedness to support essential processes such as customer care, billing, and marketing. We conducted in depth interviews with internal employees, attended an IT architectural review, and reviewed extensive documentation which identified historical strategies and objectives, successes and failures, current capabilities and competencies, and future strategies for strengthening these capabilities. We prepared a comprehensive internal IT and competitive analysis which serves as a foundation for the company to formulate improvement strategies
- For a major northern European telecommunications operator we assisted in procuring an integrated customer billing/care system for GSM services. The project included specifications, vendor selection, process realignment/coordination and migration plan for implementation and operation.
- Business process redesigns of the information and telecommunications processes and the subsequent realignment of the internal information systems/telecommunications organizations for a large mid-western electric utility. The utility was expanding its infrastructure and required a more effective means of operating to satisfy the requirements of its internal users and provide for external opportunities to leverage its core competencies in the marketplace.

Prior to her present position, Ms. LaRue was responsible for all major telecommunications analysis, planning, network design and implementation for Arthur D. Little.

Ed Horrell

Mr. Horrell, through his firm Horrell Communications, is active in consulting to the telecommunication industry, specifically to telecommunication companies and end-users in the areas of strategic planning, marketing and customer service, and mergers and acquisitions.

Education

- Bachelor's degree from the University of Memphis in business telecommunications management.

Work Experience

- Mr. Horrell began his telecom career in 1973 with ITT, beginning in sales in Memphis and advancing to Branch Management for Chattanooga, Tennessee and then for the combined Cincinnati/Dayton branches setting production records at both locations and being a regular President's Club winner.
- From ITT, Mr. Horrell went to Northern Telecom, where he returned to Memphis as Branch Manager, again achieving regular President's Club status.
- Following his three year tenure with Northern Telecom, Mr. Horrell served as Telecommunication Officer for First Tennessee Banks, where he was responsible for the bank's statewide voice and data network.
- Mr. Horrell joined with Mr. John Mitchell in 1981 to form a consulting firm, Mitchell & Horrell, Inc. which operated offices in Memphis, Nashville, and Dallas. Mr. Horrell was also an active lecturer and author on various communication topics, speaking at conferences and seminars nationwide as well as authoring over 60 published articles in various communication magazines. A feature article on Mr. Horrell in *NetworkWorld* referred to him as "a bright light in the telecommunications industry."
- Mr. Horrell left Mitchell & Horrell, Inc. in 1988 for a two-year stint as CEO of a client telecommunications firm and returned to private speaking/consulting in 1990.
- He is the co-founder of The Center for Spoken Communication, Inc. publishing company, which published his book, More Than Words, in 1996. He currently edits the interactive telecom magazine "TelecomHelp.com" and authors a monthly column on telecommunications in the *Memphis Business Journal*.

EXHIBIT G

JAMES R MCDANIEL
943 NOLAN RD
COVINGTON TN 38019
(901)476-5511 Residence

CAREER HISTORY

1999-
**PROJECT
ENGINEER**

A & L NETWORKS

1999-
INSTRUCTOR

A&A SERVICES
Provided training on cable splicing and engineering
To BellSouth

1998-1999
CONTRACTOR

SELF-EMPLOYED
Installed Lucent cellular radio equipment

1998-1999
**UTLITIES
CONSULTANT**

ENTEL TECHNOLOGIES, INC.
Coordinate and design power and telephone
facilities for new cellular telephone sites

1988-1997
**NETWORK
SPECIALIST
(OUTSIDE PLANT
ENGINEER)**

BELLSOUTH TELECOMMUNICATIONS, INC.
Designed fiber optic and copper network for data and voice
applications, DS1-DS3, Digital Loop Carrier
Project Manager for construction estimates
Acquired right-of-way
Designed building entrance and riser systems

1986-1988
CABLE SPLICER

SOUTH CENTRAL BELL TELEPHONE COMPANY
Spliced and tested Digital Loop Carrier systems

1984-1986
**SENIOR SYSTEMS
TECHNICIAN**

UNIVERSAL COMMUNICATIONS SYSTEMS
Installation and maintenance of NEAX, SIEMONS, ITT
switching and pbx equipment

1982-1984
**SYSTEMS
TECHNICIAN**

BAPTIST MEMORIAL HOSPITAL
Installation and maintenance of NORTHERN and ITT
pbx equipment

1972-1982
**INSTALLER
REPAIRMAN,
CABLE SPLICER**

SOUTH CENTRAL BELL TELEPHONE COMPANY
Installation and maintenance of private and business
telephones
Cable maintenance and splicing

EDUCATION

1983

AC-DC ELECTRICITY AND ELECTRONICS

Trezevant Vocational Technical School

1967

DIPLOMA

Byars Hall High School

Roger M. Hay

Roger Hay is a Senior Consultant in Arthur D. Little's Telecommunications, Information Technologies, Media and Electronics practice, where he helps clients around the world build and implement business plans based on expert appreciation of trends and capabilities in telecommunications technology. He brings over thirty years' experience in public telecommunications and cable television, in the areas of engineering, network planning, and business planning.

Education

- Bachelor of Engineering degree from McGill University, Montreal
- Master of Business Administration degree from the University of Ottawa.
- Authorized to practice as a professional engineer by the Association of Professional Engineers of Ontario.

Recent Experience

In telecommunications networks and systems, he has helped clients with:

- Finding the best match between technology choices and business vision, for new and established local and long-distance telecommunications operators, for voice, data and video, using wired and wireless means, in developing as well as developed countries, including techno-economic modeling.
- Due-diligence reviews of plans for telecommunications systems for local and long-distance services and local broadband networks, including technology characteristics, dimensioning, implementation plans, quality, reliability and operations plans, and including implementation review.
- Development of a network plan and economic model for a local telecommunications carrier based on Internet Protocol switching of voice and data.
- Review and optimization of a central European telephone company's capital plan.
- Development of investment plans and models as part of the process of privatizing the telephone companies in a major South American country.
- Helping to improve the network planning, plant provisioning and service implementation processes of a telephone company.
- Advice on voice transmission quality, including development of a plan for simulation and subjective evaluation of low-bit-rate satellite communications systems.

In radio systems, he has helped clients with:

- Matching technological choices to market needs in cellular, PCS, fixed wireless access, broadband millimeter-wave multipoint networks, rural telephony, paging and microwave radio-relay systems.

- Due-diligence reviews of fixed wireless access technology and plans in urban, suburban, rural and remote settings.
- Microwave radio-relay network and system planning.
- Preparation of PCS license applications, and evaluation of cellular license submissions.

In local broadband communications, he has helped clients with:

- Coordination of the development of interface specifications for high-speed data modems on cable television systems.
- Advice on requirements for cable telephony technology.
- Due-diligence reviews of plans for deploying telephony, data and video services using cable television technology.
- Requirements for operations support systems for local wired broadband communications systems.
- Analysis of opportunities for metropolitan-area wireless broadband communications systems.

Prior to joining Arthur D. Little, he gained the following experience:

- Management of a research and development program at Cable Television Laboratories in the U.S. on integrating PCS technology into cable television infrastructure.
- Business planning, capital budgeting and network planning at a competitive long-distance telecommunications carrier.
- Redesigning the technical planning organization of a competitive long-distance carrier to decentralize key functions and get them closer to the customers.
- System engineering, planning and implementation of voice, data and message switching, operations support systems and transmission systems.

Prior to joining Arthur D. Little, Mr. Hay held positions at Unitel Communications Inc., Bell Canada, CP Telecommunications and Canadian Motorola Electronics.

Patrick E. White

Patrick White is a Principal in the Telecommunications, Information, Media, and Electronics (TIME) Practice. His 25-year career spans all segments of the communications industry, including optical communications, wireless, intelligent networks, the Internet and broadband. Early in his career, he helped architect the fault recovery capability for a telephone switching system. He later led the software development for one of the world's first digital voice messaging systems. As part of the industry focus on fiber in the loop system for broadband entertainment, his Bellcore group co-developed the ATM protocol now widely used throughout the voice and data communications industries. Mr. White led Bell Atlantic's telecommunications strategy department and was the principal architect of the firm's Internet telephony strategy. His background combines an in-depth knowledge of communications technologies with an excellent understanding of business issues, including competitor behaviors.

Education

- He holds a Masters and a Ph.D. in Electrical Engineering from Northwestern University.
- Mr. White is distinguished as the first African American to graduate from Northwestern with a doctorate in engineering.

Recent Experience

- Technical and economic tradeoffs between different video-on-demand servers.
- Competitive assessment of various strategies for telephone company entry into broadband entertainment, including wireline, direct broadcast satellite and terrestrial wireless.
- Optical network architectures.
- Technology and economic evaluation of Internet telephony implementations capable of matching traditional telephony quality of service.
- Development of scenarios to reflect potential competitive outcomes for the local and long distance telecommunications industries as well as the cable television industry.

Mr. White is a frequent speaker at communications industry events and has published widely in industry technical journals. He was a past editor of articles on telecommunications switching systems for the IEEE Communications Magazine and was a guest editor for a special issue of the Journal on Selected Areas of Communications focused on broadband switching. He recently presented a paper on broadband networks at the recently concluded Optical Fiber Conference.

Before joining Arthur D. Little, Mr. White was a Vice President of Research and Development at Bell Atlantic Corporation. He is currently a member of the Advisory Board for the School of Engineering at Northwestern, and a past member of the Advisory Board for the Telecommunications department at Michigan State University.

J. Gregory Fowler

Mr. Fowler has eleven years experience in sales, marketing and engineering positions with industry leading network equipment manufacturers and eighteen years experience in computers and communications. His experience includes:

- Extensive Carrier, Enterprise, and Federal account knowledge throughout the Southeast US
- Utilizes multi-level strategic account development for maximum revenue generation
- Consistently opens new accounts while managing installed base revenue
- Strong self-starter with ability to adapt to growth and change
- Excellent presentation and speaking abilities

Education

- Associate of Science, Communications Technology, 1984, Community College of the Air Force
- Bachelor of Science, Computer Engineering, 1986, University of Southern Mississippi

Recent Experience

1999-present, Nortel Networks, Inc., Senior Account Manager

- Responsible for sales of Nortel data solutions to carrier accounts in NC, SC, TN, KY.
- Market space includes: IOCs (Independent Operating Companies), CLECs (Competitive Local Exchange Carriers), ISPs (Internet Service Providers), and other emerging carriers.
- Technologies include: ATM, IP, optical, and Softswitch based infrastructures to support voice, video, and data service offerings for the emerging Next Generation Network (NGN) carrier marketplace.
- Solutions include: Integrated Voice and Data over ATM for CLECs, Tier 1 and Tier 2 next generation IP backbones with IP QOS, Integrated NGN solutions capable of delivering Internet Telephony

1994-1998, Bay Networks, Inc., Senior Account Executive

- Has consistently exceeded sales revenue objectives:
 - FY 98: Generated over \$11 million in revenue for over 150% of goal
 - FY 97: Generated \$10.3 million in revenue and achieved 125% of goal
 - FY 96: Generated \$7.8 million in revenue and achieved 140% of goal

- Senior Account Executive – Accounts included: Duke Energy, NationsBank, First Union National Bank, City of Charlotte, Royal/Sun Alliance Insurance, Interstate Johnson Lane
- Track record of strategic account wins:
 - Springs Industries: Established Bay Networks as strategic hub and switch vendor
 - S. Carolina Dept. of Trans.: Established Bay Networks as strategic router vendor
 - City of Charlotte: Established Bay Networks as strategic router and switch vendor

1991-1994, Wellfleet Communications, Inc., Federal Marketing Manager

- Designed and implemented Wellfleet Communication's Federal marketing strategy.
- Managed a team of five sales and technical resources that:
 - Conducted focused sales and marketing activities at Federal 'nerve centers' nationwide. These included NASA centers, key DoD sites, and DOE R&D locations where architecture, program and policy decisions were made.
 - Performed targeted sales activities for major Federal procurements. These activities included influencing specifications, developing RFP and bid strategies, and winning long term contracts. Managed major systems integrator relationships post-award.
 - Performed Federal sales efforts in support of remote territory representatives.
- Major wins and accomplishments included:
 - US Postal Service -- successfully displaced incumbent router vendor, resulting in contract that has generated over \$15 million in sales and has grown to over 400 routers.
 - US Army Sustaining Base Information System (SBIS) -- this win provided the major contract vehicle necessary to penetrate the DoD community.
 - ARPA Defense Simulation Internet -- special development project provided key features to secure this high profile project which has generated over \$4 million in revenue.
- Grew Federal revenues from less than \$1 million to \$24 million in three years:
 - FY 1993 -- Generated over \$5.5 million in revenue and achieved 138% of goal
 - FY 1994 -- Generated over \$12 million in revenue and achieved 133% of goal
 - 1/2 FY 1995 -- Generated over \$12 million in revenue and achieved 114% of goal

1989-1997, 3Com Inc., Systems Engineer

Worked as a pre-sales systems engineer in 3Com's Federal sales group. Participated in all aspects of the sales process. Provided presentations, product positioning, and engineering support to Federal end users and major systems integrators. Developed technical seminars targeted at retaining installed base customers.

1987-1989, Computer Sciences Corporation, Systems Engineer

Worked as Technical Director for several large federal procurements including the Air Force's Unified LAN Architecture (ULANA). Responsible for vendor selection and development of technical responses to RFPs.

1986-1987, Tracor Applied Sciences, Systems Engineer

Provided engineering support for a large LAN/WAN environment. Performed site surveys, design and analysis for several LAN/WAN implementation projects.

1981-1986, US Air Force, Communications Technician and Technical Instructor

Provided classroom and lab-based instruction on Air Force communications equipment including:

- HF/UHF/VHF transmitters and receivers
- Cryptographic equipment
- Teletype equipment
- 2 wire / 4 wire field telephone systems
- Time Division Multiplexing and Statistical Multiplexing equipment

NORTEL NETWORKS

Nortel Networks (Nortel) is a leading global provider of communications network solutions, with revenues of over \$18 billion. Nortel, which commercialized digital technology to the telecommunications industry in 1976, provides network and telecommunications equipment and related services in North America, Caribbean and Latin America, Europe, the Middle East, and Asia/Pacific. Nortel also provides products and services to the telecommunications and cable television industries, businesses, universities, governments and other institutions worldwide.

Nortel has a long tradition of technological innovation and state-of-the-art design of advanced products, systems, and services that have helped shape the very nature of modern communications. The corporation's aggressive pursuit of technology advancement is rooted in a commitment to create leading-edge product and network solutions that provide added value and competitive advantage to our partners. World-leading expertise in a broad range of technologies and applications places Nortel at the forefront of communications technology development.

FRANCIS (FRANK) GERARD WYE

Frank Wye is a senior Operations and Project Director with extensive experience in the design and implementation of second network operator networks. Frank has held a number of senior positions for synchronous digital hierarchy (SDH) manufacturers and on consultancy projects with network operators world wide. He is accomplished at presenting solutions and business cases to the most senior levels of client management. Extensive experience has been gained on major projects with new telecommunication operators in the UK, Hong Kong, Philippines, china, Middle East and the former Soviet Union e.g. Jersey Telecom, Scottish Telecom, Norweb, ETPI in Philippines, Nynex Cable, Comstar in Russia, etc.

Principal Skills

- Extensive project management experience gained on numerous projects world wide
- Strong ability to communicate and transfer knowledge and present complex business cases to Managing Directors / Board members
- Strong analytical skills and abilities to simplify complex issues for others to grasp more quickly and easily
- Skilled in leading negotiation teams with equipment suppliers
- Extensive technical skills and experience on leading edge technologies and implementation issues
- Experienced at bringing marketing and engineering together to determine service requirements, traffic predictions and service strategy

Recent Experience

- Operations and Project director for Comstar, a second network operator in Russia (Comstar is a joint venture carrier in Russia operating local, long distance and international networks)
- Network design and implementation of 60,000 lines, copper, 1000 km of optical fibre cable for Comstar
- Planning and design of SDH STM 1, STM 4, and STM 16 SDH rings (STM 1, STM 4 and STM 16 are versions of OC-3, OC-12 and OC-48)
- Planning and implementing local customer access consisting of SDH, plesiochronous digital hierarchy (PDH) and pair gain systems over copper wires
- Implementation of customer service, provision of digital switches, Intelligent Network, SDH/PDH, billing and network signalling standards
- Implementation of customer access networks including signalling protocols, private automatic branch exchanges (PABXs) and network management

- Production of specific business cases comparing initial costs, ongoing lifetime costs, equipment requirements and alternatives, including presentation to Managing Director/Boards
- Establishing operations and maintenance of commercial Internet services and computer networks
- Planning and design of SDH radio systems, GSM (GSM is the cellular mobile telephone standard running at 900 GHz – the USA GSM standard runs at 1900GHz) and CT2 (CT2 was a UK standard for home and office mobile phones, is now replaced in Europe by DECT) for local loop access networks
- Establishing disaster management, operations and maintenance procedures
- Establishing interconnect methods with other network operators including synchronisation plans
- Evaluation of equipment and vendor responses for various network platforms and management systems

Professional Qualifications

- Corporate Member of the UK Institute of Electronic and Electrical Incorporated Engineers (IEEIE)
- Registered as an Incorporated Engineer with the UK Engineering Council's Board for Engineers Registration
- Member of the Institute of Incorporated Engineers in Electronic Electrical and Mechanical Engineering (IEEEEME), located at Savoy Hill House, Savoy Hill, London WC2R 0BS

Academic Qualifications

- Graduated from the Matthew Boulton Technical College in Birmingham, UK and received a Full Technological Certificate in Telecommunications

EXHIBIT H

[Confidential – filed under seal]

Small and Minority-Owned Telecommunications Business Participation Plan

Memphis Networkx, LLC ("Memphis Networkx") submits the following Small and Minority-Owned Telecommunications Business Participation Plan (the "Plan") in compliance with T.C.A. §65-5-212. Memphis Networkx seeks to provide maximum practicable opportunity for Small and Minority-Owned businesses to compete on a fair and equitable basis for contracts and sub-contracts awarded by the company. For the purpose of this Plan, "Small and Minority-Owned Business" shall have the same meaning as defined in T.C.A. § 65-5-212, i.e., "Minority Business" means a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls the daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipt of less than four million dollars (\$4,000,000); and "Small Business" means a business with annual gross receipts of less than four million dollars (\$4,000,000). Memphis Networkx is committed to identifying qualified businesses in these categories and encouraging their participation in the purchasing and contracting process. Moreover, Memphis Networkx will award contracts to such qualified businesses to the extent reasonable and practicable.

Memphis Networkx will designate a Diversity Officer who will have the responsibility of implementing the Small and Minority-Owned Telecommunications Business Participation Plan. Memphis Networkx has designated the following individual as Diversity Officer:

Carlotta Maclin
Director of Operations
7555 Appling Center Drive
Memphis, Tennessee 38133-5069
Phone: (901) 213-5112

The Diversity Officer will have the following general duties:

1. **Identifying, developing and maintaining lists of Small and Minority-Owned Businesses that are deemed eligible to be suppliers and contractors for Memphis Networkx.** Memphis Networkx's outsourcing needs will vary as Memphis Networkx's operations evolve to meet its customers needs. Memphis Networkx anticipates using outside contractors for outside plant construction. Memphis Networkx will encourage Small and Minority-Owned telecommunications businesses to contact the Diversity Officer regarding their areas of expertise and Memphis Networkx will place the names of potential contractors on its list of potential sources for services and products. To further fulfill the function of identifying suppliers, contractors and sub-contractors, the Diversity Officer will: (1) join the Tennessee Minority Purchasing Council and the MidSouth Minority Business Council which will aid in the identification of local minority vendors; (2) identify potential vendors and service providers from lists on file with the Uniform Certification Agency (a consortium of local government entities in Shelby County), the Tennessee Department of Economic and Community Development and informal networking and referral sources; (3) search for qualified Small and Minority-Owned telecommunications businesses and concerns through local and national associations and minority supplier development councils, industry meetings and advertisements in industry and local publications. The Diversity Officer shall ensure that the appropriate source listings and services are properly utilized in support of the Plan.

2. **Cultivating an awareness among such businesses as to any opportunities to develop business relations with Memphis Networkx.** The Diversity Officer will cultivate and maintain relationships with minority, women's and small business trade associations and business development organizations in an effort to locate and qualify

businesses for participation in contracting opportunities. The Diversity Officer will attend or arrange for Memphis Networkx representatives to attend business opportunity workshops, minority business enterprise seminars and trade fairs for this purpose.

3. Inviting bids, or issuing requests for proposals, or otherwise soliciting offers from qualified entities to furnish specified goods or services. Among other things, the procurement request should be structured to permit Small and Minority-Owned Business concerns to participate to the maximum extent possible. This includes, to the greatest extent possible, arranging solicitations, time for preparation of bids, quantities, specifications, and delivery schedules so as to facilitate participation. On all purchase orders, the person requesting authorization will make a good faith effort to include at least one Small or Minority-Owned Business on every solicitation for products and services. In addition, Memphis Networkx will encourage large contractors that sub-contract Memphis Networkx's projects to utilize Small and Minority-Owned businesses as sub-contractors.

4. Provide advice and counsel for Small and Minority-Owned Business concerns. The Diversity Officer shall act as the company contact for suppliers interested in bidding on Memphis Networkx opportunities. The Diversity Officer shall also ensure that Memphis Networkx offers assistance and counseling to explain requests for quotations, progress payments; technical and quality assurance programs; advice on types of business typically being contracted and the mechanics of procurement requirements of quality expectations.

5. Ensuring the establishment and maintenance of records of solicitations and contract activity. Memphis Networkx will maintain records of its contract solicitations and awards so that it can monitor results achieved under the Plan. Memphis Networkx will allow the TRA access to such records in accordance with its regulatory authority.

6. **Paying contractors in a timely manner, pursuant to the terms of their contracts, and ensuring that large contractors establish procedures to ensure timely payment to sub-contractors that are Small and Minority-Owned Business concerns.** Memphis Networkx will strive to be sensitive to the cash flow concerns of Small and Minority-Owned Businesses and structure its contracts and practices with such businesses accordingly. In addition, Memphis Networkx will address this issue with large contractors in order to facilitate participation of Small and Minority-Owned Business in sub-contracts.

7. **Minority ownership interest in Memphis Networkx.** In accordance with Section 3.4 of the Operating Agreement of Memphis Networkx, each of the initial members of Memphis Networkx will negotiate in good faith to sell a portion of its financial rights in Memphis Networkx to one or more Minority Businesses within four years of the Approval Date as defined in the Operating Agreement.

As required by Tennessee law, Memphis Networkx will update its Plan annually.

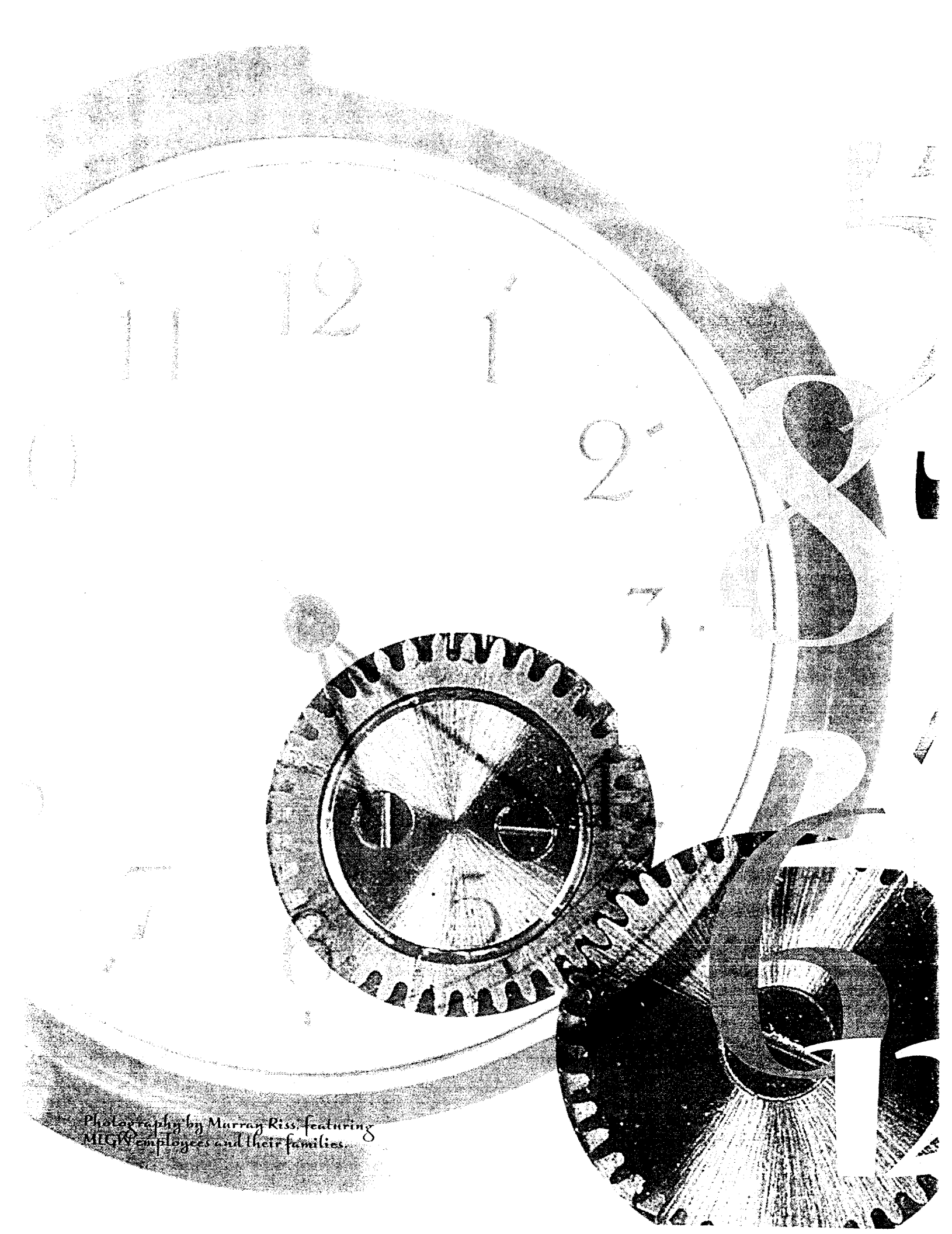
EXHIBIT I

Hometown Energy

Memphis Light, Gas and Water Division's
1998 Annual Report



helping hands
around the clock



Photography by Murray Riss, featuring
MIG employees and their families.

ABOUT MEMPHIS LIGHT, GAS AND WATER DIVISION

Founded in 1939, MLGW serves Memphis and Shelby County, Tenn. and is the largest three-service municipal utility system in the nation. Our president and five-member board of commissioners are appointed by the city mayor. The Tennessee Valley Authority supplies electricity to MLGW. Natural gas is transported through two open access pipeline companies: Texas Gas Transmission Corporation and Trunkline Gas Company. MLGW owns and operates one of the largest artesian water systems in the world.

Board of Commissioners as of December 31, 1998

James Netters, Chairman
R. Jalenak, Vice Chairman
Bishop William Graves
Franketta Guinn
Olin Morris

Executive Officers as of December 31, 1998

Herman Morris Jr.
President and CEO

Kenneth O. Cole
Vice President, Customer Service and Marketing

Curtis Dillihunt
Vice President, Human Resources

John McCullough
Vice President, Finance and Secretary/Treasurer

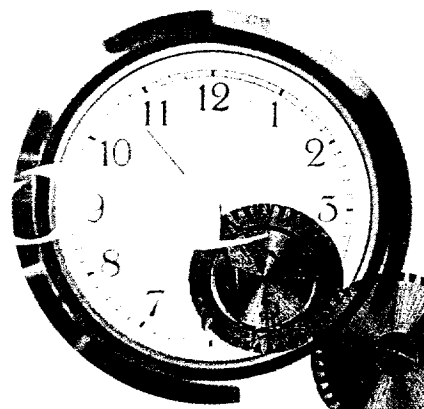
Keneth J. Olds
Vice President, Engineering

Wade Stinson
Vice President, Construction and Maintenance

Larry Thompson
Senior Vice President, Operations

Alonzo Weaver
Vice President, Operations

J. Maxwell Williams
General Counsel



President's Message

Although time will be the ultimate judge, 1998 will likely be remembered as a defining year in the life of our company. It was an exciting year, one that reaffirmed our belief that we are a company without equal. For instance, MLGW earned two of the business world's most prestigious ratings this year: a "AAA" from Standard and Poor's (making MLGW the only utility in the nation with such a distinction), and an "Aa1" rating from Moody's Investors Services. Both were earned while offering some of the lowest rates in the nation.

And on the subject of rates, thanks to prudent long-term planning and aggressive cost-containment, we will extend our current rate freeze in all three divisions, holding them steady for another five years.

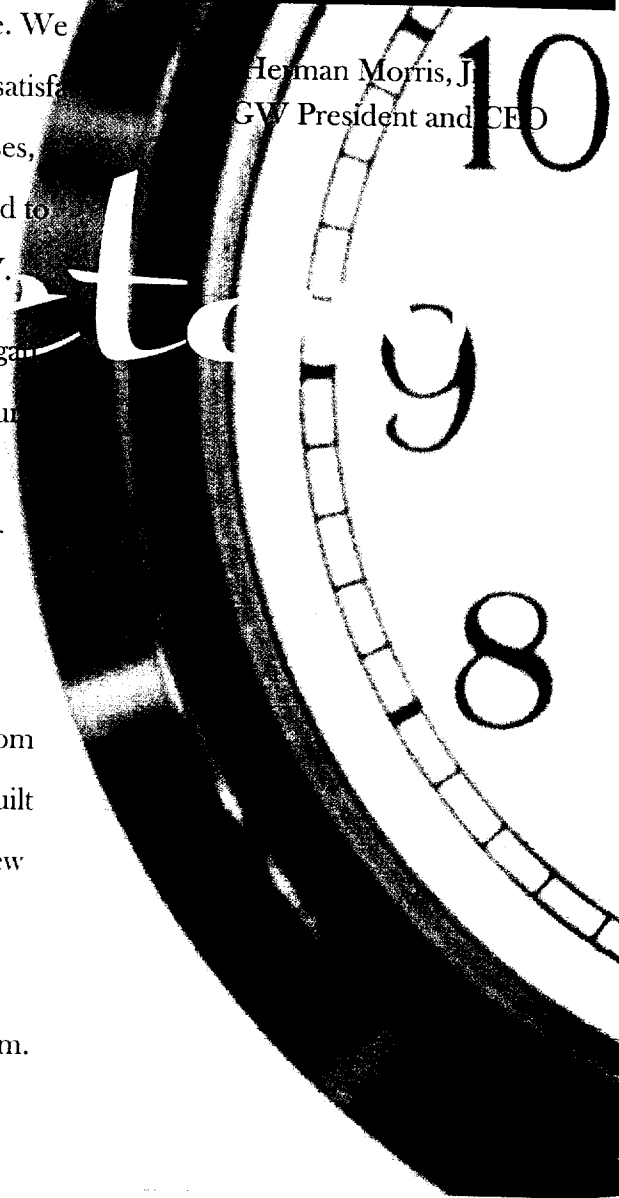
But we know that it takes more than low rates to be competitive. We must never compromise our commitment to complete customer satisfaction. We must pursue every opportunity to improve work processes, implement innovative ideas, and increase our efficiency. I'm proud to say that this is more than a philosophy, it's a way of life at MLGW.

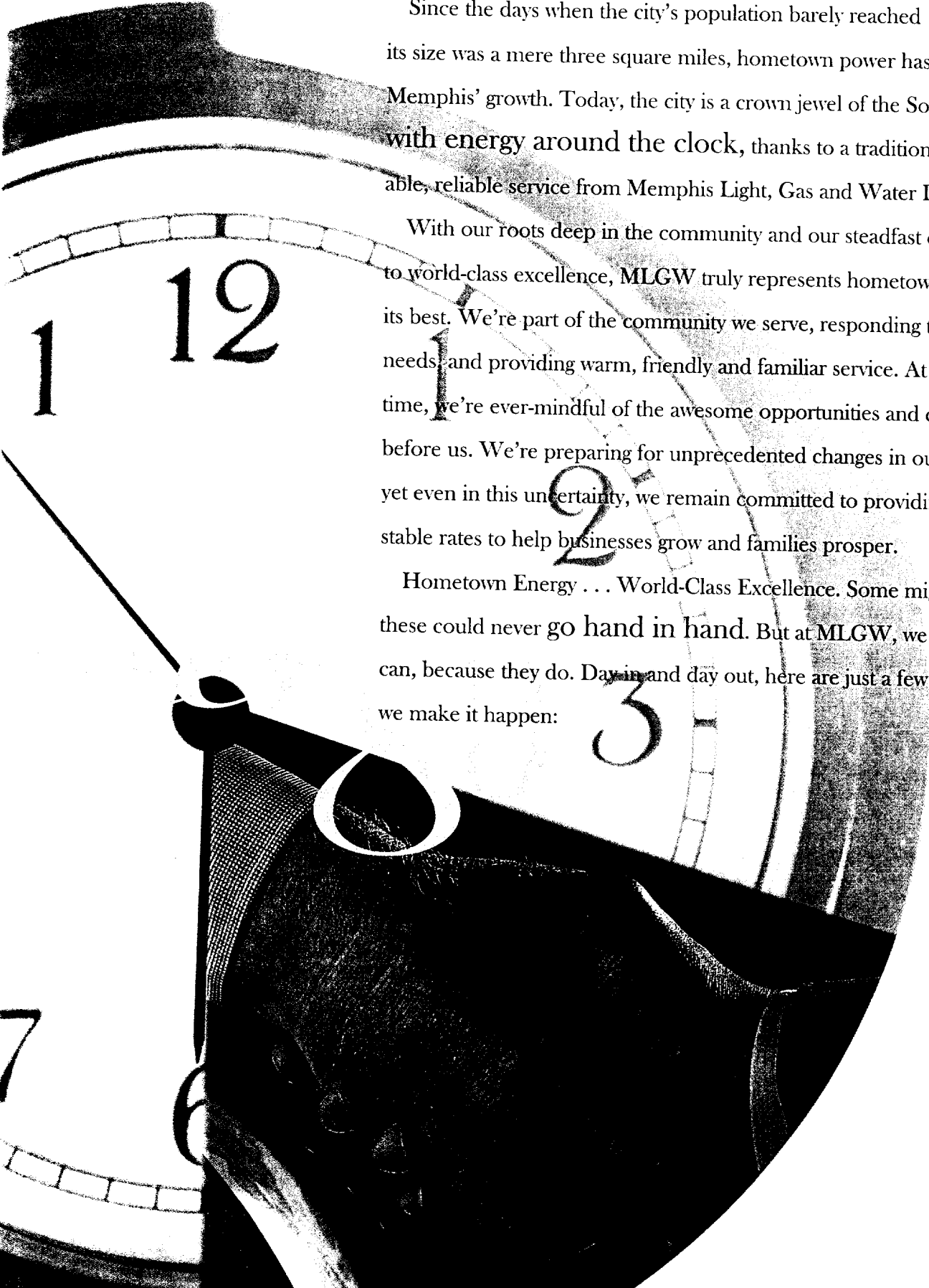
What's more, our customers know it and appreciate it. Our slogan *Hometown Energy Working for You*, not only aptly summarizes our operational philosophy, but it also drives home the value of being a public power provider. Our customers treasure this asset to their community, and have expressed overwhelming and undeniable support for MLGW.

Our commitment to our customers has never been stronger. From volunteerism to economic development incentives, MLGW has built a tradition of excellence. Now, as we approach the dawning of a new millennium and a deregulated electric industry, we know that our customers are depending on us to light the way. We welcome the challenges before us and will meet them with energy and enthusiasm. After all, our customers expect and deserve nothing less.



Herman Morris, Jr.
MLGW President and CEO





Hometown Energy.... World-Class Excellence

Since the days when the city's population barely reached 10,000 and its size was a mere three square miles, hometown power has fueled Memphis' growth. Today, the city is a crown jewel of the South, alive with energy around the clock, thanks to a tradition of affordable, reliable service from Memphis Light, Gas and Water Division.

With our roots deep in the community and our steadfast commitment to world-class excellence, MLGW truly represents hometown energy at its best. We're part of the community we serve, responding to its unique needs and providing warm, friendly and familiar service. At the same time, we're ever-mindful of the awesome opportunities and challenges before us. We're preparing for unprecedented changes in our industry, yet even in this uncertainty, we remain committed to providing low, stable rates to help businesses grow and families prosper.

Hometown Energy . . . World-Class Excellence. Some might think these could never go hand in hand. But at MLGW, we know they can, because they do. Day in and day out, here are just a few of the ways we make it happen:

Operational Excellence

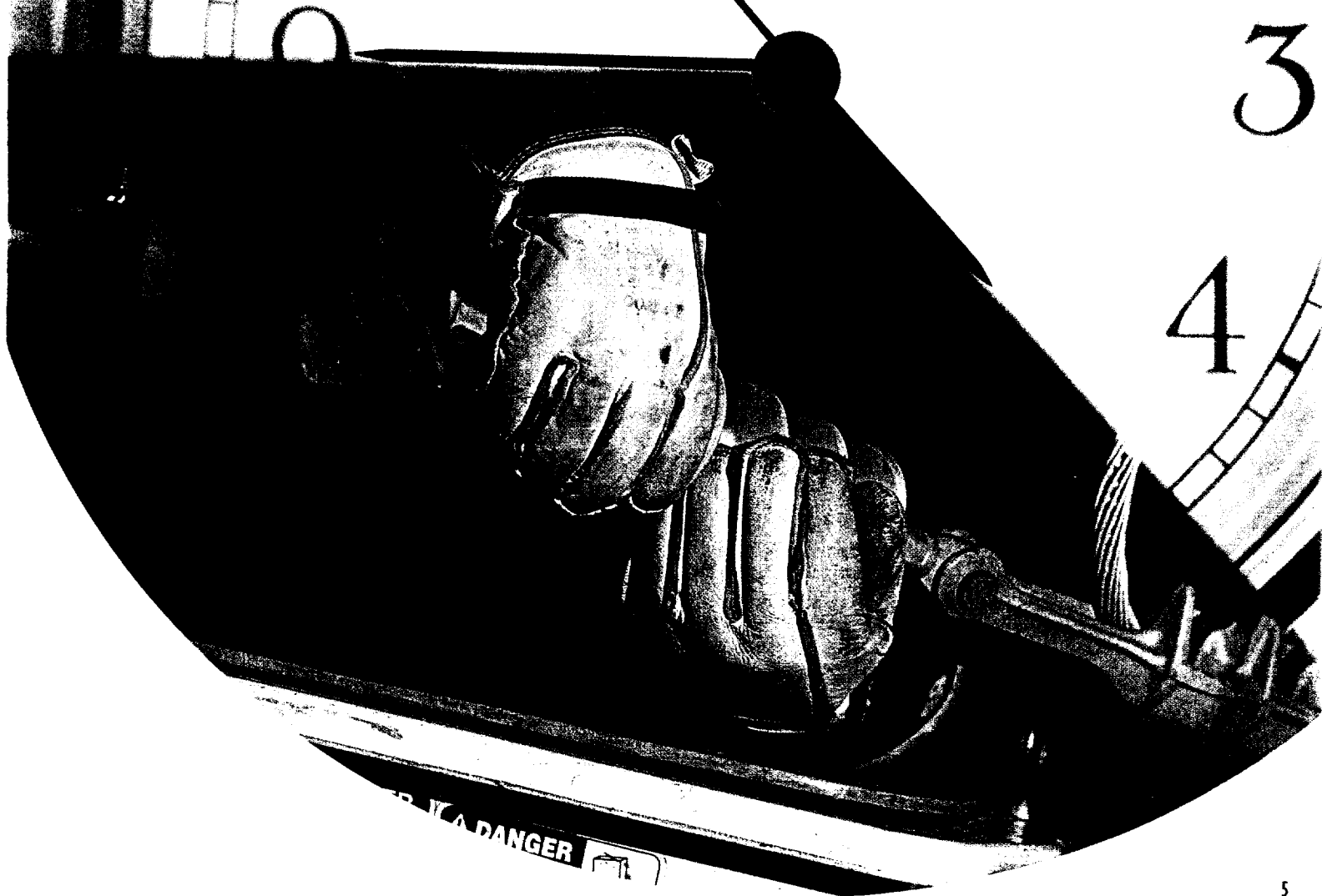
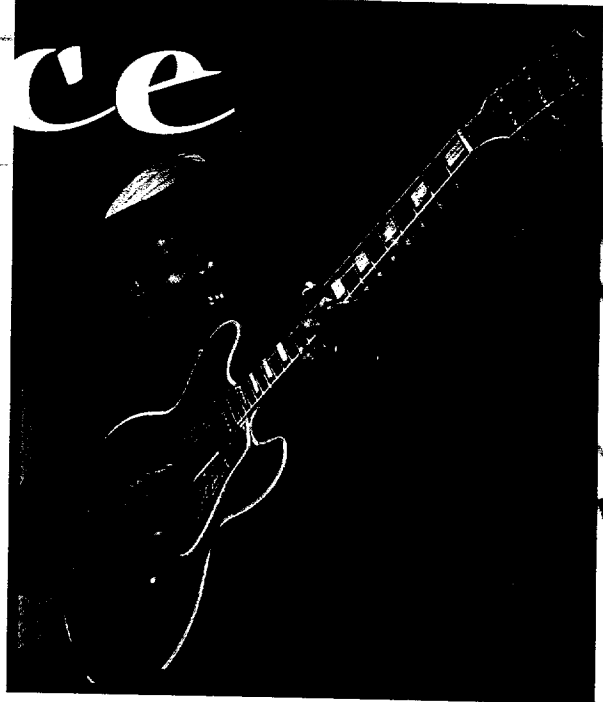
Throughout the company, in all three divisions, the challenge of achieving operational excellence is put to the test every day at MLGW. Whether it's in response to the extremes of weather or proactively seeking innovative improvements, our employees are committed to providing outstanding customer service in all that they do. This service is provided in such a way that it leaves no room for doubt or debate regarding MLGW's unequalled dedication to its customers.

Records were shattered during the 1998 heat wave when electric and water demands peaked on July 7. With a high temperature of 101 degrees, MLGW's all-time high electric demand reached 3,160 megawatts, and water demand reached an all-time daily pumpage high of 231 million gallons, with a system demand of 325 million gallons a day.

As the relentless heat drove consumption to record highs, MLGW responded by strengthening its reliability. A temporary substation was built in just two short weeks, increasing capacity to the Bartlett area. And a new \$4.1 million substation came on-line in Collierville, the fastest growing city in Tennessee. Work was also completed in late 1998 on a third substation, set to serve the Pidgeon Industrial Park.

Managing the company's electric, gas and water systems is a new, \$1.76 million Supervisory Control Data Acquisition (SCADA) system which was installed in 1998. In an unprecedented move, MLGW joined four other utilities in purchasing the system, saving \$1 million on equipment and an additional \$250,000 in software updates.

The summer's heat was as
hot as Memphis' music.
With a high temperature of
101 degrees, MLGW's all-
time high electric demand
reached 3,160 megawatts
and we didn't miss a lick.



In addition to the SCADA upgrade, a massive three-year computer conversion was completed this year on the Customer Information System, the unit which manages the heart of the utility's daily operations, including billing, meter reading, adjustments, and many other critical functions.

In the water division, customer growth in eastern Shelby County led to the expansion of our Patricia Walker Shaw Water Pumping Station, doubling the water treatment capacity from 15 million gallons a day to



Memphis is world famous for its fine barbeque, and low, stable rates from MLGW help cook it up right.



30 million gallons a day. And as part of an ongoing seismic mitigation project funded in part through a grant from the Federal Emergency Management Agency, an emergency generator was installed at the Davis Water Pumping Station, ensuring electricity in the event of power loss.

However, the electric and water divisions weren't alone in demonstrating forward-thinking, customer friendly services. The gas division's use of new directional drilling technology allows employees to access underground facilities while minimizing cost as well as inconvenience to daily business operations and street traffic. MLGW's skillful and resourceful use of this technology led the Gas Research Institute to present the utility with its Pacesetter Award.

Such continuous improvement is the philosophy behind the Best Practices Program, a joint management-union initiative that encourages employee input on how to do their jobs better. Through employee-driven programs such as this, we are further developing a culture that is sensitive to the changing needs of our customers and the challenges which are before us.

And in late 1998, we took yet another step to ensure that our organization and its operations are positioned for maximum performance by redefining and realigning the customer service and marketing functions of the company. One exciting result of this strategy will be seen in 1999 when *MLGW energy solutions*, a new energy services venture, begins assisting customers in making innovative, cost-effective decisions about their energy and water needs. In entering this \$200 billion industry, MLGW will provide a valuable helping hand to customers – at first, to government operations, institutions, manufacturers and large businesses facing mandatory requirements for energy improvements, but later to small commercial and residential customers.

financial Performance


As a testament to MLGW's long-term strategic and financial planning efforts, the utility earned two of the business world's most coveted financial ratings this year, becoming the only utility in the nation to hold a AAA rating from Standard and Poor's. And on the heels of this announcement came an Aa1 rating from Moody's Investors Service.

These upgraded ratings were applied to MLGW's water revenue bonds, which allowed the company to refinance some \$12 million in bonds at a much lower rate, generating more than \$1 million in savings. As of year-end 1998, MLGW's water division has reduced its long-term debt by nearly \$24 million in the past five years, and reduced its Moody's debt ratio from 37.3 percent to 20.2 percent.

With the news of these ratings, MLGW President and CEO Herman Morris Jr. pledged to continue efforts with renewed vigor in the utility's other two divisions, and added that the ratings are especially noteworthy since they were earned while offering customers some of the lowest rates in the nation.

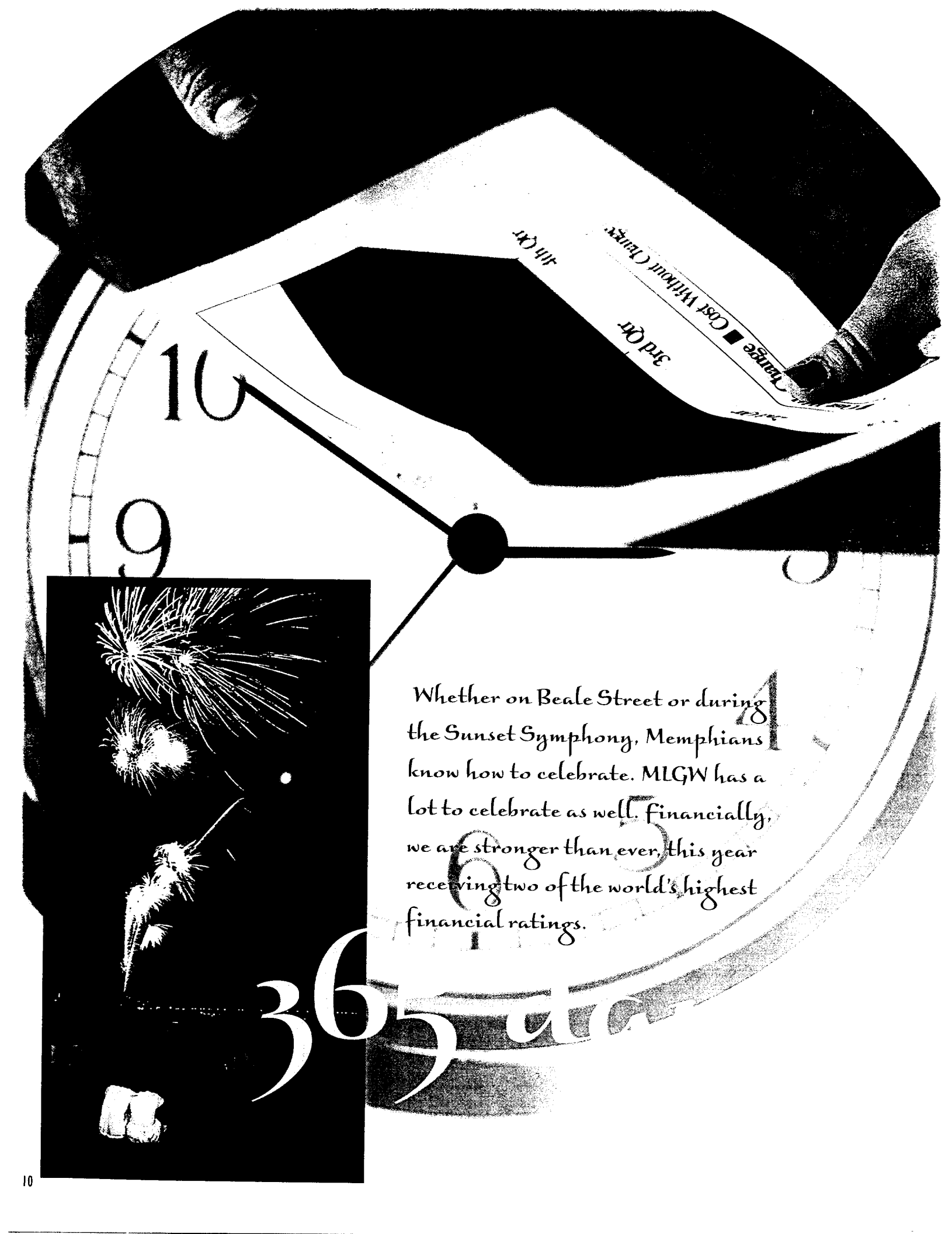
However, the utility's excellent financial performance was not limited to the water division. Thanks to a strategy of prudent management and aggressive cost-containment measures, MLGW announced to customers in October 1998 that we will extend our rate freeze for another five years, pledging stable costs in all three services. In fact, many large commercial and industrial customers will receive a gas rate decrease beginning in January 1999, ranging from 8.7 percent to 28 percent for certain classifications. The rate reduction will save area businesses more than \$4.8 million annually.

For years, MLGW customers have enjoyed some of the lowest combined utility costs in the nation, and a 1998 survey of electric, gas, water



Here's something to smile about!
Memphis' water is rated among the
best in the world, and MLGW chem-
ists perform some 40,000 tests a
year to ensure that our water is
always of the highest quality.



A large, stylized clock face serves as the background. The clock has large numbers for 9, 10, 3, 4, 5, and 6. The hands are thick black lines. A newspaper clipping is placed over the upper right portion of the clock, with text visible on it: "Charge ■ Cost Without Charge", "3rd Qtr", and "4th Qtr".

Whether on Beale Street or during the Sunset Symphony, Memphians know how to celebrate. MLGW has a lot to celebrate as well. Financially, we are stronger than ever, this year receiving two of the world's highest financial ratings.



and wastewater rates in America's largest cities proved this to be true once again. This distinction received national attention this summer, when *Money Magazine* acknowledged Memphis as having the lowest utility costs of 18 comparable Southern cities.

In addition to passing cost savings along to our customers through low rates, MLGW presented a 1999 operations and maintenance budget which was \$1.8 million less than 1998's spending plan. What's more, ideas and input from employees have helped strengthen this across-the-board cost-containment strategy. Truly, MLGW employees are leading the way in finding more innovative and efficient ways of putting their hometown energy to work for our customers.

For instance, through the manager-level Innovator Club program, projects representing more than \$3.02 million in quantifiable savings were proposed and accepted this year. And projects recommended by Quality Circles, teams of front-line management and bargaining unit employees, will generate more than \$1.4 million in savings. Since this program was implemented at MLGW some 20 years ago, employee-generated ideas have saved the company and our customers more than \$24 million.

Managing costs and finding more efficient ways of doing business are fundamental components of our financial strategy. But we're not stopping here. We're also engaging in opportunities to increase non-traditional revenue - income generated from sources other than the delivery of electric, gas and water services. For instance, in 1998, more than \$1.6 million was earned by leasing space on our transmission towers to cellular telephone and fiber optic service providers.

Community Investments

The means by which we invest in our community are as diverse as those we serve. It begins with our employee base, as it is essential that we be the people we serve. We want to look like the customers we serve, so that we can think like the community we serve, and know the people we serve. And how better to know their needs than when they are our needs? It just makes good business sense.

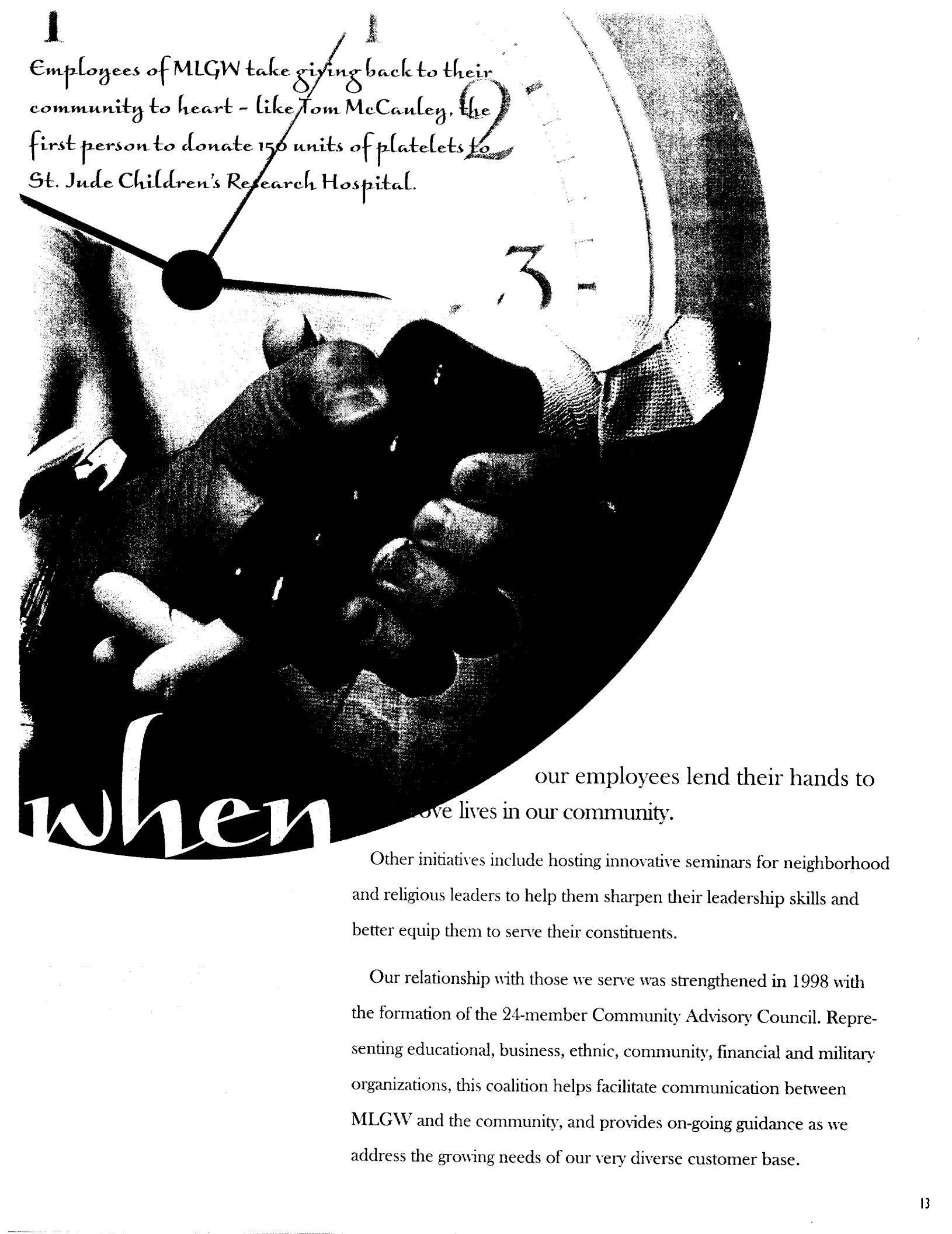
In keeping with this, our Supplier Diversity Program is a bottom-line business strategy integrated throughout the organization. We examine our procurement needs, explore the availability of minority-, women- and locally-owned suppliers and work on a project-by-project basis to meet our supplier diversity goals. In 1998, more than \$20 million in goods, services and contracts were purchased or retained through this program.

Through our relationship with the Memphis Area Chamber of Commerce, MLGW contributes some \$500,000 a year to local economic development efforts. And as a result of this 30-year partnership, in 1998 we saw nearly \$1.4 billion in economic growth in our local economy.

In addition to these business strategies, our support for the community is demonstrated through contributions in numerous other areas, as well. For instance, MLGW employees lead the Mid-South region in per person gifts to the United Way, and in 1998, their generous support totaled more than \$578,000.

Whether it be rehabilitating the homes of elderly, disabled, and low-income customers, organizing food drives for the hungry, or cultivating a lifelong interest in learning among inner-city school children - or any one of the many other projects supported by MLGW volunteers -





1
Employees of MLGW take giving back to their community to heart - like Tom McCauley, the first person to donate 150 units of platelets to St. Jude Children's Research Hospital.

when

our employees lend their hands to
... lives in our community.

Other initiatives include hosting innovative seminars for neighborhood and religious leaders to help them sharpen their leadership skills and better equip them to serve their constituents.

Our relationship with those we serve was strengthened in 1998 with the formation of the 24-member Community Advisory Council. Representing educational, business, ethnic, community, financial and military organizations, this coalition helps facilitate communication between MLGW and the community, and provides on-going guidance as we address the growing needs of our very diverse customer base.

future Expectations

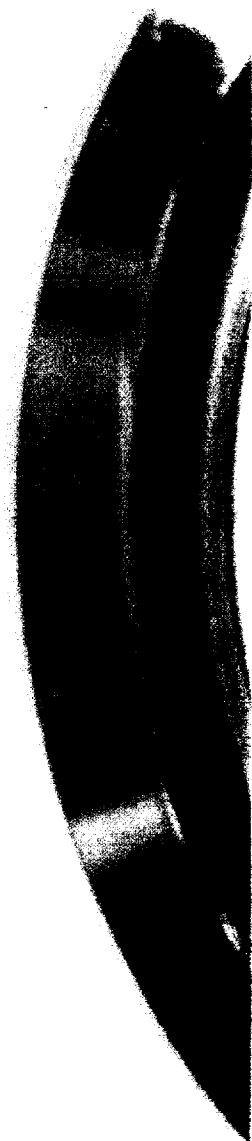
The next few years will bring drastic changes within our industry, and at MLGW, we're working to influence the course of this change for the benefit of our customers. For instance, we're actively involved in deregulation legislation on the state and national levels. And in our ongoing contract negotiations with the Tennessee Valley Authority, we're seeking greater flexibility so that we can purchase a portion of our electric power from others if we choose.

We're also expanding both within and beyond our traditional territory. In 1998, we entered an agreement to provide construction and maintenance services for the water system of Piperton, Tenn., located in Fayette County, and continued negotiations to purchase the Shelby County Board of Public Utilities.

Internally, we continue our work to ensure that all of MLGW's processes truly demonstrate our philosophy of hometown energy and world class excellence. We've examined our call center operations, for instance, and have added new technology, improved techniques and adjusted staffing to better serve our customers. When complete, these improvements will increase our call-handling ability by more than 200 percent.

In short, MLGW is firmly committed to being the utility that sets the standard by which all others are compared. Through our mature strategic planning process and our daily commitment to customer satisfaction, we constantly explore opportunities to improve our services, offer new products, and ways to better serve the community.

By remaining steadfast to this mission, we are confident of a smooth transition into the new millennium and our ability to be a strong competitor in a deregulated electric utility market. Taking full advantage of all of the resources and capitalizing on our assets is how we will continue providing "Hometown Energy . . . World Class Service."



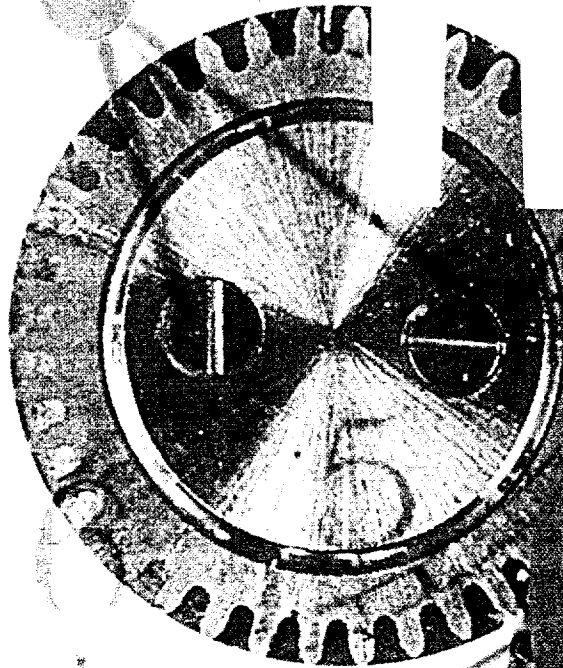


Just as Memphis' famous
Peabody Hotel is recognized for
its outstanding service and
Southern hospitality, our ser-
vice to our customers is beyond
comparison. We're here when
you need us. We're your
hometown energy company.



MEMPHIS LIGHT, GAS AND WATER DIVISION

1998 financials



Financial Highlights

ELECTRIC DIVISION

	1998	1997
Operations		
Sales (thousand kilowatt hours)	13,837,627	12,791,260
Maximum system demand (kilowatt hourly use)	3,120,415	2,996,249
Number of customers	398,270	395,807
Average annual usage per residential customer (thousand kilowatt hours)	15.86	14.25
Financials		
Total revenues	\$ 849,124,651	\$ 747,167,990
Purchased power	\$ 645,486,688	\$ 554,660,074
Net revenues	\$ 51,907,629	\$ 45,616,476
Plant in service (at cost)	\$ 896,777,074	\$ 860,836,619
Long-term debt	\$ 158,970,000	\$ 179,095,000

GAS DIVISION

	1998	1997
Operations		
Sales (thousand cubic feet)	37,493,925	39,984,080
Maximum system demand (thousand cubic feet daily)	495,010	548,377
Number of customers	298,454	292,752
Average annual usage per residential customer (thousand cubic feet)	69.27	77.56
Financials		
Total revenues	\$ 203,352,169	\$ 232,658,677
Purchased gas	\$ 116,958,347	\$ 145,562,708
Net revenues	\$ 27,805,072	\$ 35,438,624
Plant in service (at cost)	\$ 388,363,790	\$ 366,295,814
Long-term debt	\$ —	\$ —

WATER DIVISION

	1998	1997
Operations		
Sales (hundred cubic feet)	62,650,707	59,097,748
Maximum system demand (million gallons daily hourly rate)	322.2	227.3
Number of customers	222,794	219,269
Average annual usage per residential customer (hundred cubic feet)	138.64	129.62
Financials		
Total revenues	\$ 62,813,378	\$ 58,397,735
Net revenues	\$ 16,102,301	\$ 14,636,512
Plant in service (at cost)	\$ 280,278,255	\$ 269,484,304
Long-term debt	\$ 59,448,374	\$ 64,685,000

CREDIT RATING

	Moody's Investors Services	
	1998	1997
Electric Revenue Bonds	Aa	Aa
Water Revenue Bonds	Aa1	Aa



Electric Division

Power costs in 1998 totaled \$744.2 million, or 6.6 percent from 1997. This accounted for 36.1 percent of total operating expenses which totaled \$744.2 million. Other operating expenses were \$822.1 million up 13.9 percent from 1997.

After providing for operating expenses, debt service, renewals and replacements, dividends, in lieu of taxes, and other interest expenses, the balance of net revenues was \$39 million.

Capital construction for 1998 totaled \$26.4 million and was financed with \$16 million from the renewal and replacement fund and \$26.4 million from the current year's net revenues.

The Electric Division paid \$20.2 million in debt service to the City of Memphis General fund.

There were no changes in electric rates during 1998.

Where the Money Comes from

Percentage of each utility dollar

Commercial 44.3
Residential 40.6
Industrial 8.4
Other 6.7

Where the Money Goes

Percentage of each utility dollar

Purchased Power 76.0
Operations 8.3
Capital Additions 5.0
Debt Service & Related Expenses 3.5
Insurance 3.3
Income Tax 2.4

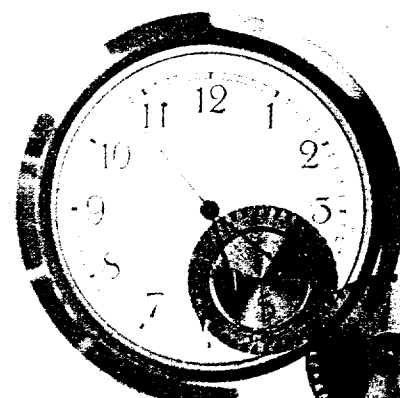
Transfers to and from
payments to system

Electric Division

FINANCIAL AND STATISTICAL INFORMATION

	1998	1997	1996	1993	1988
Power Use-mwh (1)					
Residential	5,380,910	4,726,455	4,864,617	4,589,927	4,155,643
Commercial-General Service	6,406,677	5,948,588	5,676,291	5,280,007	4,508,282
Industrial	1,775,599	1,839,864	1,734,028	1,647,841	1,620,485
Other customers	274,441	276,353	265,506	249,428	244,429
Total	<u>13,837,627</u>	<u>12,791,260</u>	<u>12,540,442</u>	<u>11,767,203</u>	<u>10,528,839</u>
System demand-kw maximum hourly use	<u>3,120,415</u>	<u>2,996,249</u>	<u>2,942,731</u>	<u>2,798,636</u>	<u>2,488,252</u>
Number of Customers					
Residential	340,618	334,124	328,973	320,630	302,053
Commercial-General Service	40,820	40,017	39,250	36,412	33,209
Industrial	154	171	173	187	202
Other	16,678	16,495	16,202	15,240	13,788
Total	<u>398,270</u>	<u>390,807</u>	<u>384,598</u>	<u>372,469</u>	<u>349,252</u>
Revenues					
Residential	\$344,621,240	\$291,112,649	\$295,855,033	\$277,289,466	\$242,247,939
Commercial-General Service	376,263,549	334,181,053	325,895,678	299,842,662	257,144,881
Industrial	71,154,540	66,313,386	64,400,604	67,955,108	74,046,237
Other	57,085,322	55,560,902	56,898,232	46,309,360	30,648,049
Total	<u>849,124,651</u>	<u>747,167,990</u>	<u>743,049,547</u>	<u>691,396,596</u>	<u>604,087,106</u>
Expenses					
Electric power cost	645,486,688	554,660,074	556,292,811	520,227,483	477,156,842
Other operating expenses	98,721,807	94,081,537	94,914,276	92,280,758	67,798,022
Total operating expenses	<u>744,208,495</u>	<u>648,741,611</u>	<u>651,207,087</u>	<u>612,508,241</u>	<u>544,954,864</u>
Payments in lieu of taxes	20,184,361	19,550,968	21,614,999	20,015,508	14,531,410
Depreciation and amortization	22,891,501	22,200,865	21,750,886	19,425,884	14,701,156
Interest	9,932,665	11,058,070	12,139,569	15,780,245	14,692,134
Total	<u>797,217,022</u>	<u>701,551,514</u>	<u>706,712,541</u>	<u>667,729,878</u>	<u>588,879,564</u>
Net Revenues					
Net revenues before extraordinary item	51,907,629	45,616,476	36,337,006	23,666,718	15,207,542
Extraordinary (loss) (2)	—	—	—	(7,962,892)	—
Reinvested in system, bond retirement or to working capital during year	<u>\$ 51,907,629</u>	<u>\$ 45,616,476</u>	<u>\$ 36,337,006</u>	<u>\$ 15,703,826</u>	<u>\$ 15,207,542</u>
Other Financial Statistics					
Plant in service (at cost)	\$896,777,074	\$860,836,619	\$832,679,714	\$750,587,368	\$590,746,562
Bonds outstanding	\$158,970,000	\$179,095,000	\$198,145,000	\$248,150,000	\$209,880,000
Bond anticipation notes	—	—	—	—	—
Credit Rating					
Moody's Investors Services	Aa	Aa	Aa	Aa	Aa
Standard and Poor's Corporation	AA	AA	AA	AA	AA
Construction During 1998					
From renewal and replacement fund	\$ 16,040,017				
From current year net revenues	26,372,484				
Total construction	<u>\$ 42,412,501</u>				

1. Mwh equals thousand kilowatt hours.
2. In 1993 the Division issued bonds to refund portions of existing bonds. The refunding resulted in an extraordinary loss recognized in 1993; however, this loss will be offset by reduced future interest cost.



Gas Division

Gas costs in 1998 amounted to \$117 million, down 19.7 percent from 1997. This amounted to about 71 percent of operating expenses which totaled \$164.7 million. Operating revenues were \$195 million, down 13.4 percent from 1997.

After providing for operating expenses, debt service, renewals and replacements, dividends, in lieu of taxes, payments and other interest expenses, the balance of net revenues amounted to \$17.1 million.

The Gas Division spent \$24.3 million for capital construction in 1998, which was financed with \$22.8 million from the renewal and replacement fund and \$1.5 million from current year net revenue.

The Gas Division paid \$10.4 million in dividends and payments in lieu of taxes to the City of Memphis.

There were no changes in gas rates during 1998.

Revenue from gas sales for 1998 was:

Residential
Commercial
Industrial
Other

Where the Money Goes
Percentage of each utility dollar

Operating expenses 57.5
Debt service 12.2
Renewal and replacement 10.2
Dividends in lieu of taxes 10.4
Interest on debt 1.0
System replacements 1.0

Gas Division

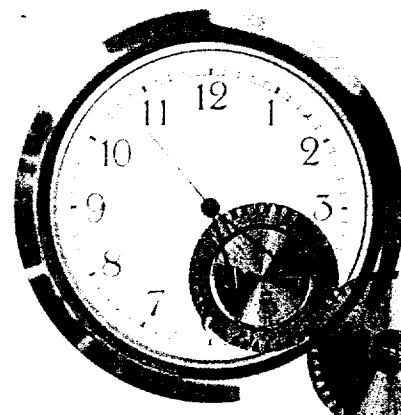
FINANCIAL AND STATISTICAL INFORMATION

	1998	1997	1996	1993	1988
Gas Use-mcf (1)					
Residential	19,044,125	20,654,795	22,975,071	21,499,438	19,902,866
Commercial-General Service	11,798,008	13,314,126	14,385,114	10,692,442	10,868,099
Industrial	3,375,317	3,514,948	4,081,727	1,795,745	4,625,853
Other customers (2)	3,276,475	2,500,211	3,642,568	8,022,280	8,098,433
Total	<u>37,493,925</u>	<u>39,984,080</u>	<u>45,084,480</u>	<u>42,009,905</u>	<u>43,495,251</u>
System demand-mcf maximum daily use	<u>495,010</u>	<u>548,377</u>	<u>521,930</u>	<u>454,070</u>	<u>456,956</u>
Number of Customers					
Residential	277,074	271,851	267,138	255,191	237,355
Commercial-General Service	21,230	20,765	20,346	19,464	17,770
Industrial	69	74	81	106	71
Other	81	62	51	69	41
Total	<u>298,454</u>	<u>292,752</u>	<u>287,616</u>	<u>274,830</u>	<u>255,237</u>
Revenues					
Residential	\$ 105,542,706	\$ 122,073,224	\$ 130,494,159	\$ 100,482,045	\$ 85,848,300
Commercial-General Service	56,578,430	67,709,942	72,499,231	46,624,141	44,132,293
Industrial	31,385,977	29,758,612	34,336,252	38,233,618	38,814,602
Other	9,845,056	13,116,899	13,703,085	8,684,436	11,800,460
Total	<u>203,352,169</u>	<u>232,658,677</u>	<u>251,032,727</u>	<u>194,024,240</u>	<u>180,595,655</u>
Expenses					
Natural gas cost	116,958,347	145,562,708	151,453,868	120,989,891	123,768,661
Other operating expenses	47,780,466	42,658,100	43,245,158	39,785,227	33,627,209
Total operating expenses	164,738,813	188,220,808	194,699,026	160,775,118	157,395,870
Payments in lieu of taxes	2,001,238	2,001,238	2,001,238	2,001,237	2,010,235
Depreciation, depletion and amortization	8,792,414	6,959,168	6,459,785	5,888,393	6,181,452
Interest	14,632	38,839	74,677	365,930	1,077,330
Total	<u>175,547,097</u>	<u>197,220,053</u>	<u>203,234,726</u>	<u>169,030,678</u>	<u>166,664,887</u>
Net Revenues					
Net revenues	27,805,072	35,438,624	47,798,001	24,993,562	13,930,768
Used to pay dividends to City of Memphis or reinvested in system and working capital	<u>\$ 27,805,072</u>	<u>\$ 35,438,624</u>	<u>\$ 47,798,001</u>	<u>\$ 24,993,562</u>	<u>\$ 13,930,768</u>
Other Financial Statistics					
Plant in service (at cost) (3)	\$ 388,363,790	\$ 366,295,814	\$ 343,703,829	\$ 264,677,854	\$ 184,473,049
Bonds outstanding	—	—	—	—	\$ 8,875,000
Credit Rating					
Moody's Investors Service					
Standard and Poor's Corporation					
Construction During 1998					
From renewal and replacement fund	\$ 22,739,717				
From current year net revenues	1,529,759				
Total construction	<u>\$ 24,269,476</u>				

1. Thousand cubic feet @ 14.73 psia.

2. Includes varied off-peak sales to electric generating station.

3. Does not include plant held for future use.



Water Division

Operating Revenues in the Water Division amounted to \$57.7 million in 1998, an increase of 6.5 percent over 1997, and operating expenses for 1998 totaled \$36.6 million, up 7.4 percent from 1997.

After providing for operating expenses, debt service, bond reserves, renewals and replacements, and other interest expenses, the balance of net revenues amounted to \$10.3 million.

Construction costs of \$16.7 million were financed from the renewal and replacement fund.

The Water Division supplied \$1.9 million in free services to the City of Memphis, including free water for parks and firefighting, as well as the purchase, installation and maintenance of fire hydrants.

There were no changes in water rates during 1998.

Where the Money Comes from

Percentage of each utility dollar

Charges for Water
Other

Where the Money Goes

Percentage of each utility dollar

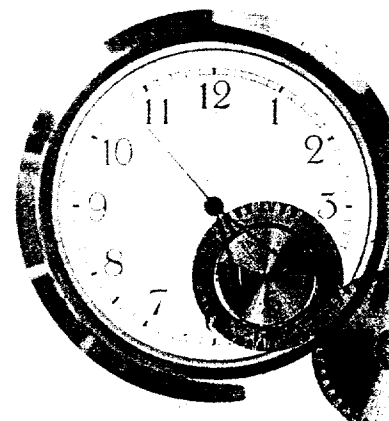
- Operations 36.8
- Capital Additions 26.5
- Production 15.9
- Debt Service & Related Expenses 14.3
- Maintenance 5.7
- Available for Additions & Replacements .8

Water Division

FINANCIAL AND STATISTICAL INFORMATION

	1998	1997	1996	1993	1988
Water Use-ccf (1)					
Residential	27,515,795	25,341,003	26,253,321	25,254,407	26,555,979
Commercial-General Service	29,965,102	28,942,059	29,884,498	29,054,556	27,255,461
Free water, metered (2)	1,553,892	1,984,318	1,558,661	1,649,032	2,025,508
Other customers	3,615,918	2,830,368	2,375,387	4,651,173	2,862,507
Total	<u>62,650,707</u>	<u>59,097,748</u>	<u>60,071,867</u>	<u>60,609,168</u>	<u>58,699,455</u>
Pumpage to City-mgd (3)					
maximum hourly rate	<u>322.2</u>	<u>227.3</u>	<u>257.1</u>	<u>295.0</u>	<u>296.4</u>
Number of Customers					
Residential	199,201	196,124	193,852	191,546	185,161
Commercial-General Service	19,311	18,871	18,607	18,230	17,121
Other	4,282	4,274	4,102	3,798	3,467
Total	<u>222,794</u>	<u>219,269</u>	<u>216,561</u>	<u>213,574</u>	<u>205,749</u>
Revenues					
Residential	\$ 27,370,127	\$ 24,993,711	\$ 25,917,391	\$ 21,442,845	\$ 16,308,482
Commercial-General Service	22,043,484	21,069,350	21,459,668	17,983,899	12,843,608
Other	13,399,767	12,334,674	11,846,485	8,537,360	6,315,145
Total	<u>62,813,378</u>	<u>58,397,735</u>	<u>59,223,544</u>	<u>47,964,104</u>	<u>35,467,235</u>
Expenses					
Production	9,978,846	8,857,833	9,178,539	8,119,059	8,223,622
Other operating expenses	26,725,580	25,131,935	23,032,045	19,756,432	13,919,997
Total operating expenses	36,704,426	33,989,768	32,210,584	27,875,491	22,143,619
Depreciation and amortization	6,404,917	5,826,238	5,346,001	5,066,960	3,652,870
Interest	3,601,734	3,945,217	4,217,838	5,544,968	3,700,706
Total	<u>46,711,077</u>	<u>43,761,223</u>	<u>41,774,423</u>	<u>38,487,419</u>	<u>29,497,195</u>
Net Revenues					
Net revenues before extraordinary item	16,102,301	14,636,512	17,449,121	9,476,685	5,970,040
Extraordinary (loss) (4)	—	—	—	(3,166,283)	—
Reinvested in system, bond retirement or to working capital during year	<u>\$ 16,102,301</u>	<u>\$ 14,636,512</u>	<u>\$ 17,449,121</u>	<u>\$ 6,310,402</u>	<u>\$ 5,970,040</u>
Other Financial Statistics					
Plant in service (at cost)	\$280,278,255	\$269,484,304	\$256,413,756	\$232,778,721	\$180,359,887
Bonds outstanding	\$ 59,448,374	\$ 64,685,000	\$ 69,925,000	\$ 83,140,000	\$ 71,035,450
Bond anticipation notes	—	—	—	—	\$ 20,000,000
Credit Rating					
Moody's Investors Service	Aa1	Aa	Aa	Aa	Aa
Standard and Poor's Corporation	AAA	AA	AA	AA	AA
Construction During 1998					
From renewal and replacement fund	\$ 16,657,670				
Total construction	<u>\$ 16,657,670</u>				

1. Hundred cubic feet.
2. Does not include unmetered free water provided for firefighting, street sprinkling, etc.
3. Mgd equals million gallons daily.
4. In 1993 the Division issued bonds to refund portions of the existing bonds. The refunding resulted in an extraordinary loss recognized in the current year; however, this loss will be offset by reduced future interest costs.



Balance Sheets

DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

Assets

	Electric Division		Gas Division		Water Division	
	1998	1997	1998	1997	1998	1997
Utility Plant , at cost (Notes 1 and 2)	\$896,777	\$860,836	\$391,534	\$369,466	\$280,278	\$269,484
Less accumulated depreciation and amortization	<u>311,891</u>	<u>294,847</u>	<u>126,998</u>	<u>118,139</u>	<u>90,224</u>	<u>89,345</u>
Utility plant - net	584,886	565,989	264,536	251,327	190,054	180,139
Restricted Funds (Notes 1, 3, 5, 6, 7 and 11)						
Construction	1,001	1,086	3,040	15,306	14,131	21,086
Insurance reserves - injuries and damages	3,842	4,261	1,508	1,114	1,203	634
Insurance reserves - casualties and general	10,244	9,785	6,796	8,233	4,272	4,071
Medical benefit	—	—	10,567	7,525	—	—
Customer common deposits	—	—	14,566	15,227	—	—
Bond reserve and debt service	<u>22,550</u>	<u>23,555</u>	<u>—</u>	—	<u>9,019</u>	<u>9,622</u>
Total restricted funds	37,637	38,687	36,477	47,405	28,625	35,413
Current Assets						
Cash and cash equivalents (Notes 1 and 3)	62,368	48,436	78,008	51,036	34,808	28,135
Accounts receivable, less allowance for doubtful accounts	60,584	55,407	24,388	31,880	13,119	11,476
Deferred purchased power and gas cost (Note 1)	24,512	25,738	8,208	13,896	—	—
Materials and supplies - at average cost	10,886	11,080	6,588	6,807	1,364	1,536
Miscellaneous	<u>435</u>	<u>956</u>	<u>283</u>	<u>271</u>	<u>—</u>	<u>54</u>
Total current assets	158,785	141,617	117,475	103,890	49,291	41,201
Other Assets						
Deferred charges	—	—	2,329	2,495	—	—
Unamortized debt expense (Notes 1 and 6)	1,400	1,785	—	—	1,137	1,069
Notes receivable	1,298	1,298	—	1,964	2,015	2,018
Notes receivable from customers - energy conservation loans (see contra-TVA)	339	533	—	—	—	—
Miscellaneous	<u>(25)</u>	<u>149</u>	<u>—</u>	—	<u>—</u>	—
Total other assets	3,012	3,765	2,329	4,459	3,152	3,087
TOTAL ASSETS	<u>\$784,320</u>	<u>\$750,058</u>	<u>\$420,817</u>	<u>\$407,081</u>	<u>\$271,122</u>	<u>\$259,840</u>

See notes to financial statements.

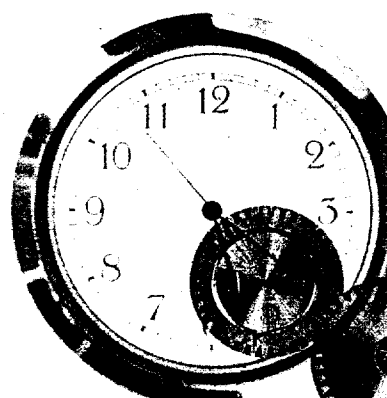
Balance Sheets

DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

Capitalization and Liabilities

	Electric Division		Gas Division		Water Division	
	1998	1997	1998	1997	1998	1997
Capitalization						
Long-term debt (Note 6)	\$158,970	\$179,095	\$ —	\$ —	\$ 59,448	\$ 64,686
Accumulated net revenues (Note 10)	546,725	494,821	357,330	337,925	199,693	183,593
Total capitalization	705,695	673,916	357,330	337,925	259,141	248,279
Current Liabilities						
Accounts payable - purchased power and gas	43,866	44,066	15,701	23,205	—	—
Other accounts payable, accrued expenses, and deferrals	20,212	20,000	18,587	20,511	9,424	10,162
Total current liabilities	64,078	64,066	34,288	43,716	9,424	10,162
Other Liabilities						
Customer advances for construction	4,075	3,297	302	316	9	9
Customer common deposits	—	—	14,566	15,227	—	—
Insurance reserves - injuries and damages (Notes 1, 7 and 11)	3,842	4,261	1,508	1,114	1,203	634
Medical benefit accrual	—	—	10,567	7,525	—	—
Payable to TVA - energy conservation loans (see contra-customer notes)	1,272	1,510	—	—	—	—
Miscellaneous	5,358	3,008	2,256	1,258	1,345	756
Total other liabilities	14,547	12,076	29,199	25,440	2,557	1,399
TOTAL CAPITALIZATION AND LIABILITIES	\$784,320	\$750,058	\$420,187	\$407,081	\$271,122	\$259,840

See notes to financial statements.



Statements of Cash flows

YEARS ENDED DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

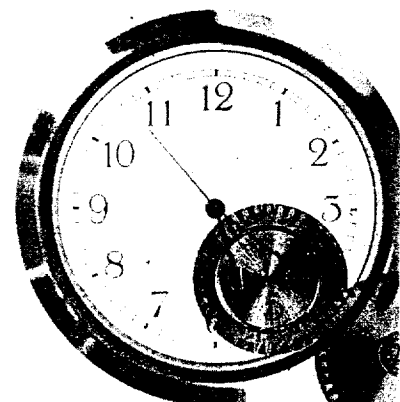
	Electric Division		Gas Division		Water Division	
	1998	1997	1998	1997	1998	1997
Cash Flows from Operating Activities						
Net operating revenues	\$ 34,857	\$ 31,247	\$ 19,437	\$ 27,887	\$ 14,568	\$ 14,084
Adjustments to reconcile net operating revenues to net cash provided by operating activities						
Depreciation of utility plant	22,891	22,201	8,793	6,959	6,405	5,825
Transmission credits	19,121	18,544	—	—	—	—
Other income	1,149	998	1,961	1,534	650	168
(Increase) decrease in assets						
Deferred compensation	—	16,546	—	—	—	—
Accounts receivable	(5,177)	(1,814)	7,492	635	(1,643)	565
Deferred purchased power and gas cost	1,226	(8,448)	5,688	456	—	—
Materials and supplies	194	587	219	(600)	172	317
Miscellaneous assets	695	11	154	247	54	85
Increase (decrease) in liabilities						
Accounts payable - purchased power and gas	(200)	(6,692)	(7,504)	(3,426)	—	—
Other accounts payable and accrued expenses	212	200	(1,924)	(398)	(738)	26
Customer advances for construction	778	1,012	(14)	38	—	—
Customer deposits	—	—	(661)	(170)	—	—
Insurance reserves	(419)	255	394	71	569	(154)
Deferred compensation	—	(16,546)	—	—	—	—
Medical benefit accrual	—	—	3,042	1,599	—	—
Payable to TVA net of notes receivable - energy conservation loans	(44)	(8)	—	—	—	—
Miscellaneous liabilities	2,350	(96)	998	(12)	589	(35)
Total adjustments	42,776	26,750	18,638	6,933	6,058	6,797
Net cash provided by operating activities	77,633	57,997	38,075	34,820	20,626	20,881
Cash Flows from Investing Activities						
Payments received on notes receivable	\$ —	\$ 494	\$ 1,964	\$ 1,470	\$ 3	\$ —
Purchase and construction of utility plant	(41,788)	(38,366)	(22,002)	(25,261)	(16,320)	(14,333)
Interest earned on investments	6,488	5,886	6,419	6,056	4,484	4,330
Purchase of restricted investments	—	(19,983)	—	(71,493)	—	(4,999)
Proceeds from sales and maturities of restricted investments	10,051	15,924	23,658	68,857	4,999	5,118
Increase in notes receivable	—	—	—	—	—	(2,018)
Net cash used in (provided by) investing activities	(25,249)	(36,045)	10,039	(20,371)	(6,834)	(11,902)

Statements of Cash flows

YEARS ENDED DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

	Electric Division		Gas Division		Water Division	
	1998	1997	1998	1997	1998	1997
Cash Flows from Capital and Related Financing Activities						
Proceeds for issuance of bonds	\$ —	\$ —	\$ —	\$ —	\$ 12,575	\$ —
Increase in unamortized debt expense	—	—	—	—	(230)	—
Principal payments on long-term debt	(20,125)	(19,050)	—	—	(17,813)	(5,239)
Dividends paid to City of Memphis	—	—	(8,397)	(8,397)	—	—
Interest expense on other debt	(31)	(82)	(15)	(38)	(9)	(23)
Interest expense on bonds	(9,517)	(10,536)	—	—	(3,431)	(3,752)
Net cash used in financing activities	(29,673)	(29,668)	(8,412)	(8,435)	(8,908)	(9,014)
Increase (Decrease) in Cash and Cash Equivalents	22,711	(7,716)	39,702	6,014	4,884	(35)
Cash and Cash Equivalents, Beginning of Year	67,140	74,856	74,783	68,769	58,549	58,584
Cash and Cash Equivalents, End of Year	\$ 89,851	\$ 67,140	\$ 114,485	\$ 74,783	\$ 63,433	\$ 58,549
Reconciliation of Cash and Cash Equivalents Per Statements of Cash Flows to the Balance Sheets						
Restricted funds	\$ 37,637	\$ 38,687	\$ 36,477	\$ 47,405	\$ 28,625	\$ 35,413
Less noncash equivalents included in restricted funds	10,154	19,983	—	23,658	—	4,999
Total	27,483	18,704	36,477	23,747	28,625	30,414
Current Assets - Cash and Cash Equivalents	62,368	48,436	78,008	51,036	34,808	28,135
TOTAL CASH AND CASH EQUIVALENTS	\$ 89,851	\$ 67,140	\$ 114,485	\$ 74,783	\$ 63,433	\$ 58,549

See notes to financial statements.



Statements of Net Revenues and Accumulated Net Revenues

YEARS ENDED DECEMBER 31, 1998 AND 1997 (IN THOUSANDS)

	Electric Division		Gas Division		Water Division	
	1998	1997	1998	1997	1998	1997
Operating Revenues (Notes 1 and 9)	\$822,141	\$721,741	\$194,969	\$225,069	\$ 57,677	\$ 53,899
Operating Expenses						
Purchased power and gas for resale (Notes 1 and 8)	645,487	554,660	116,958	145,564	—	—
Production	—	—	2,047	1,365	8,554	7,495
Operation	70,532	65,475	38,273	34,587	23,144	20,653
Maintenance	28,190	28,606	7,460	6,705	5,006	5,841
Depreciation (Note 1)	22,891	22,201	8,793	6,959	6,405	5,826
Payments in lieu of taxes (Note 10)	20,184	19,552	2,001	2,002	—	—
Total operating expenses	787,284	690,494	175,532	197,182	43,109	39,815
Net Operating Revenues	34,857	31,247	19,437	27,887	14,568	14,084
Other Income						
Transmission credits	19,121	18,544	—	—	—	—
Interest	6,488	5,886	6,419	6,056	4,484	4,330
Miscellaneous	1,371	998	1,961	1,534	650	168
Total other income	26,980	25,428	8,380	7,590	5,134	4,498
Net Revenues before Debt Expense	61,837	56,675	27,817	35,477	19,702	18,582
Debt Expenses (Note 1)						
Interest on long-term debt	9,517	10,536	—	—	3,431	3,752
Interest on other debt	31	82	15	38	9	23
Amortization of debt expense	385	439	—	—	162	170
Total debt expense	9,933	11,057	15	38	3,602	3,945
Net Revenues	51,904	45,618	27,802	35,439	16,100	14,637
Accumulated Net Revenues,						
Beginning of Year	494,821	449,203	337,925	310,883	183,593	168,956
Dividends to City of Memphis (Note 10)	—	—	(8,397)	(8,397)	—	—
Accumulated Net Revenues,						
End of Year	\$546,725	\$494,821	\$357,330	\$337,925	\$199,693	\$183,593

See notes to financial statements.

Notes to financial Statements

YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Memphis Light, Gas and Water Division ("MLGW"), a division of the City of Memphis, Tennessee (the "City"), was created by an amendment to the City Charter by Chapter 381 of the Private Acts of the General Assembly of Tennessee, adopted March 9, 1939, as amended. MLGW is managed by its President and a five member Board of Commissioners which are nominated by the City Mayor and approved by the Memphis City Council (the "Council"). MLGW, through its three distinct and financially separate divisions, provides electricity, gas and water to customers in Shelby County, Tennessee which includes the City. MLGW's annual budget and electric, gas and water rates require the approval of the Council. MLGW must also obtain the approval of the Council before incurring certain obligations.

Basis of Accounting - MLGW is required by state statute and the Charter of the City of Memphis, Tennessee to maintain separate accounting for each division and to allocate among the divisions, on an equitable basis, joint expenses, including those related to common facilities. Each division is separately financed, and its indebtedness is repayable from its net revenues.

MLGW's accounting policies are in conformity with generally accepted accounting principles. Where applicable, the Federal Energy Regulatory Commission's (Electric and Gas divisions) and the National Association of Regulatory Utility Commissioners' (Water division) Uniform System of Accounts are used. MLGW is not subject to the jurisdiction of federal or state regulatory commissions.

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Division has elected to apply all Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, to MLGW's accounting and financial reporting.

MLGW adopted GASB No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" during the year ended December 31, 1997.

MLGW adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," in 1998. This statement provided guidance for the valuation of investments. In accordance with this statement, investments at December 31, 1998, are reflected at their fair value. Restating balances for investments was not necessary because of the recorded value of the investments approximated their fair value in prior years. Investment income for the Electric, Gas and Water Divisions increased \$177,000 decreased \$45,000 and decreased \$45,000 respectively, for the year ended December 31, 1998, as a result of adopting GASB Statement No. 31.

MLGW will adopt GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" in fiscal 1999. Management has not yet determined the effects, if any, that the adoption of the statement will have on MLGW's financial statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - In accordance with the requirements of FASB No. 107, "Disclosures About Fair Value of Financial Instruments", the estimated fair value of MLGW's financial instruments has been determined by MLGW using available market information. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that MLGW could realize in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts. The carrying amounts of cash and cash equivalents, restricted investments, accounts receivable, and accounts payable are a reasonable estimate of their fair value. Management was not able to practicably estimate the fair value of MLGW's long-term debt.

Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

Property - The costs of additions and replacements of units of property are capitalized. Costs include contracted work, direct labor and materials, allocable overhead and, where applicable, an allowance for borrowed funds used during construction and are reduced by contributions in aid of construction. When property units are retired, original cost, plus removal cost, less salvage is charged to accumulated depreciation.

An allowance for borrowed funds used during construction is computed at actual interest rates to the extent major projects are financed by specific long-term debt. In 1998 and 1997, no construction projects were financed with specific long-term debt. Interest on other debt is not capitalized as it is recovered through current revenues.

Depreciation is computed by the straight-line method based on estimated service lives of various classes of property at rates equivalent to annual composite rates of approximately 3 percent for the Electric and Gas Divisions and 2 percent for the Water Division.

Unamortized Debt Expense - Unamortized debt expense is amortized by the interest method over the lives of the applicable bond issues.

Reserves and Related Restricted Funds - The insurance reserves for injuries and damages are maintained for estimated liabilities incurred and risks assumed on claims for injuries and damages and on recurring property losses. Costs and expenses for such claims and losses are paid from the related restricted funds and charged to the reserves as incurred. Increases in the reserves are charged to operations.

Insurance reserve funds for casualties are self insurance reserves maintained at discretionary amounts to partially cover losses of a catastrophic nature which are not ordinarily insurable or which are not insurable on an economically feasible basis. These amounts are included as a restriction of accumulated net revenues.

Futures Contracts and Swap Agreements - The Gas Division enters into futures contracts for the purchase of gas to manage the risk of increases in the market price of gas on anticipated purchase transactions. Futures contracts are contracts for delayed delivery of gas in which the seller agrees to make delivery at a specified future date of a specified quantity at a specified price. Open futures contracts for the purchase of gas are reported at cost, based on the contract price, in the balance sheet. Gains or losses on futures contracts are deferred until the month the gas is delivered. At that time, any gains or losses are recognized in gas costs or in the case of futures contracts entered into on behalf of specific customers, charged to that specific customer.

The Gas Division enters into swap agreements as a means for managing the Division's exposure to changes in gas prices, fixing the cost of storage refill, recovering fixed costs, and having the ability to offer prime customers prices which are competitive with gas marketers and producers. A swap is a financial agreement with characteristics similar to futures and options that is custom tailored to meet the needs of the counterparties. The counterparties typically exchange a floating and a fixed price of a commodity such as gas. No amounts related to swap agreements are recorded in the financial statements until the transactions are closed out. Once the underlying purchase transaction is closed out, the obligation to purchase the gas is recorded and the related gain or loss is recognized as a charge to gas costs and is passed through to the customer.

Revenues - Revenues are recognized on monthly cycle billings to customers. Revenues are not accrued for power, gas and water delivered but unbilled at the end of a fiscal period.

Deferred Purchased Power and Gas Cost - The purchased power and gas cost applicable to power and gas delivered to customers but not yet billed is deferred until the associated revenues are recognized.

Statements of Cash Flows - For purposes of the statements of cash flows, MLGW considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased to be cash equivalents.

Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 2 – UTILITY PLANT

Utility plant at December 31 includes construction work in progress of the following amounts:
(\$000)

	1998	1997
Electric Division	\$ 37,124	\$33,918
Gas Division	15,100	14,946
Water Division	18,256	9,960

MLGW's construction program expenditures for 1999 are estimated as follows: Electric Division - \$52,902,000; Gas Division - \$32,821,000; and Water Division - \$28,355,000.

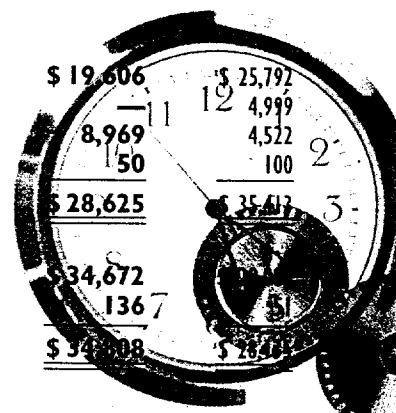
NOTE 3 – DEPOSITS AND INVESTMENTS

MLGW has a cash management program which provides for the investment of excess cash balances in short-term investments and the investment of debt service funds in instruments maturing as the related debt matures. The policy is authorized by the Charter of the City of Memphis, Tennessee, the Board of Commissioners of MLGW, and as set forth in the bond resolutions of each division. Accordingly, MLGW's investments are classified as held-to-maturity. Restricted funds and cash and cash equivalents consist of the following as of December 31:

	1998	1997
ELECTRIC DIVISION		
Restricted funds		
Common account	\$ 15,087	\$ 15,132
Mutual funds	12,396	3,572
U.S. Government agencies	10,154	19,983
Total restricted funds	\$ 37,637	\$ 38,687
Cash and cash equivalents		
Common account	\$ 62,004	\$ 48,195
Mutual funds	267	132
Cash	97	109
Total cash and cash equivalents	\$ 62,368	\$ 48,436
GAS DIVISION		
Restricted funds		
Common account	\$ 11,344	\$ 23,747
Commercial paper	23,406	11,662
U.S. Treasury notes	—	11,996
Cash	1,727	—
Total restricted funds	\$ 36,477	\$ 47,405
Cash and cash equivalents		
Common account	\$ 75,775	\$ 48,906
Mutual funds	2,233	2,130
Total cash and cash equivalents	\$ 78,008	\$ 51,036

WATER DIVISION

Restricted funds	
Common account	\$ 19,606
U.S. Government agencies	8,969
Mutual funds	50
Cash	—
Total restricted funds	\$ 28,625
Cash and cash equivalents	
Common account	\$ 34,672
Mutual funds	136
Total cash and cash equivalents	\$ 34,808



Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

The Common account consists of co-mingled funds held by safekeeping agents on behalf of MLGW and are allocated to the operating units. As of December 31, the Common account consisted of the following:

	(\$000)	
	1998	1997
Common account		
Commercial paper	\$204,141	\$158,691
U.S. Treasury notes	357	349
U.S. Government agencies	12,349	29,057
Accrued interest receivable	1,641	1,759
Total common account	<u>\$218,488</u>	<u>\$189,856</u>

Maturities of MLGW's U.S. Treasury notes and U.S. Government Agencies are as follows:

	(\$000)	
	1998	1997
Maturities less than one year		
Electric Division	\$ —	\$ 19,983
Gas Division	—	11,996
Water Division	—	—
Maturities one to five years		
Electric Division	\$ 10,154	\$ —
Gas Division	—	—
Water Division	—	4,999

Investments are categorized into three credit risk categories by GASB Statement No. 3. All of MLGW's investments (excluding mutual funds) meet the requirements of the first category, defined by GASB to include investments which are insured or registered or securities held by MLGW or its agent in MLGW's name. Mutual funds are not categorized as they are not evidenced by securities that exist in physical or book entry form.

At December 31, 1998, the bank balances of MLGW deposits were fully insured or collateralized with securities held by MLGW or its agent in MLGW's name.

The construction, bond reserve, and debt service funds of the Electric and Water Divisions are restricted under the respective bond indentures.

NOTE 4 – EMPLOYEE RETIREMENT SYSTEM

Plan Description - The Memphis Light, Gas and Water Division Pension Board is the administrator of a single-employer retirement system established by MLGW to provide retirement benefits for its employees. Prior to 1988, the retirement system included two contributory defined benefit plans (the "1948 Plan" and the "1978 Plan"). The 1948 Plan and the 1978 Plan were amended and superseded as of July 1, 1988. All employees who were members of the 1948 Plan and the 1978 Plan automatically became members of the amended, restated and consolidated Memphis Light, Gas and Water Division Retirement and Pension System (the "MLGW Pension Plan"). MLGW issues separate audited financial statements for the retirement system as of and for its fiscal year ended December 31. The financial statements may be obtained by writing to the MLGW Pension Plan, P. O. Box 430, Memphis, Tennessee 38101-0430.

The MLGW Pension Plan covers full time employees and appointed officials of MLGW. At September 30, membership consisted of:

	1998	1997
Retirees and beneficiaries receiving benefits	2,351	2,314
Terminated plan members entitled to but not yet receiving benefits	82	144
Active plan members	<u>2,498</u>	<u>2,512</u>
Total	<u>4,931</u>	<u>4,970</u>

Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

The MLGW Pension Plan provides retirement, disability and death benefits to participants and their beneficiaries. The MLGW Pension Plan also provides for a cost of living adjustment beginning at age 56 for retired, disabled and surviving spouses on a graded scale up to 5 percent per annum based on the Department of Labor consumer prices index.

Basis of Accounting - The financial statements of the MLGW Pension Plan are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the MLGW Pension Plan.

Method Used to Value Investments - All investments of the MLGW Pension Plan are reported at fair value. Short term investments are reported at cost, which approximates fair value. All other investments are valued based upon by quoted market prices except for real estate investments, which are valued at estimated fair value based on independent appraisals. The MLGW Pension Plan has no investment in any one organization which represent more than 5 percent of plan assets.

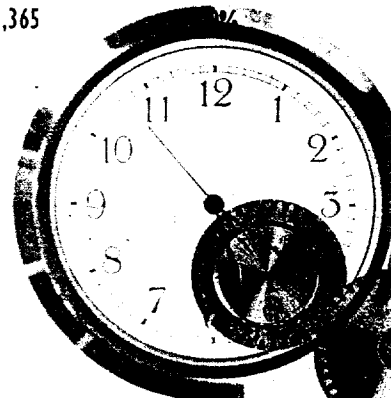
Contributions - All members under the MLGW Pension Plan are required to contribute 8 percent of the benefit compensation to the MLGW Pension Plan. During 1998 and 1997, MLGW was required to contribute 10.5 percent and 11 percent, respectively, of the benefit compensation of all active participants. Investment costs of the MLGW Pension Plan are financed through investment earnings. Other administrative costs are included in the annual required contribution amount.

Actuarial Methods and Assumptions - The asset valuation method used is the 5-year weighted index method. The aggregate actuarial cost method is used in determining the funding requirements. Significant actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, and (c) pensioner cost of living adjustments of 2.55 percent compounded annually.

Schedule of Funding Progress - The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. These liabilities are amortized through the normal cost. Under the aggregate cost method, the actuarial accrued liability equals the actuarial value of assets. At December 31, 1998 and 1997, the actuarial value of assets was \$859,684,000 and \$806,193,000, respectively.

Schedule of Contributions From All Sources - Employee and employer contributions for the past six years are shown below:

Plan Year	(\$000)		(\$000)	
	Annual Required Employee Contribution	Percentage Contributed	Annual Required Employer Contribution	Percentage Contributed
1998	\$ 8,016	100%	\$ 10,631	100%
1997	7,722	100%	10,763	100%
1996	7,654	100%	10,711	100%
1995	7,620	100%	11,610	100%
1994	7,547	100%	11,523	100%
1993	7,461	100%	11,365	100%



Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 5 – DEFERRED COMPENSATION AND OTHER POST-RETIREMENT BENEFITS

MLGW offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all MLGW employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

During 1997, the plan was amended to meet the recently enacted requirements of Internal Revenue Code Section 457. The Amended Plan provides that assets or income of the Plan shall be used for the exclusive purpose of providing benefits for Participants and their beneficiaries or defraying reasonable expenses of administration of the Plan. Since the assets of the Amended Plan are held in custodial and annuity accounts for the exclusive benefit of Plan participants, the related assets of the Plan are not reflected on the Electric Division balance sheets.

MLGW has post-retirement major medical and life insurance benefits available to all employee groups as a continuation of those benefits that were available prior to retirement. Currently, 2,314 retirees and beneficiaries are eligible for post-retirement benefits. Life insurance premiums are paid monthly and medical coverage is paid as claims are filed through the medical benefit fund (a restricted fund). The costs of future post-retirement benefits are provided for through the insurance reserves for employee benefits to the extent recovered through current revenues. MLGW has established a grantor trust to accumulate funds which will be used to pay future post retirement medical benefits. The value of assets in the fund at December 31, 1998 is \$78,570,000.

Post-retirement benefit costs for the years ended December 31, 1998 and 1997 are as follows:

	(\$000)	
	1998	1997
Electric Division		
Benefit payments	\$ 5,545	\$ 5,472
Contribution to grantor trust	—	619
Total	<u>\$ 5,545</u>	<u>\$ 6,091</u>
Gas Division		
Benefit payments	\$ 2,627	\$ 2,592
Contribution to grantor trust	—	293
Total	<u>\$ 2,627</u>	<u>\$ 2,885</u>
Water Division		
Benefit payments	\$ 1,556	\$ 1,536
Contribution to grantor trust	—	174
Total	<u>\$ 1,556</u>	<u>\$ 1,710</u>

NOTE 6 – DEBT

Long-term debt consists of:

		(\$000)	
		December 31	
	<u>Interest Rates</u>	<u>1998</u>	<u>1997</u>
Electric Division			
Electric System Revenue Bonds:			
Series 1991, due serially 1997-1999	6.10-6.40%	\$ 2,945	\$ 5,715
Series 1992, due serially 1997-2006	4.90-6.00%	90,435	102,125
Series 1992-A, due serially 1997-2000	4.60-5.25%	10,635	15,570
Series 1993, due serially 1997-2010	3.60-5.00%	<u>54,955</u>	<u>55,685</u>
Total Electric Division		\$158,970	\$179,095

Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

		(\$000)	
		December 31	
	<u>Interest Rates</u>	<u>1998</u>	<u>1997</u>
Water Division			
Southeast Memphis Suburban Utility			
District Waterworks Revenue Bonds,			
Series 1964, due serially 1997-1999	5.25%	\$ 50	\$ 100
Water Division Revenue - Bonds:			
Series 1989, due serially 1997-1998	6.60-6.80%	—	1,045
Series 1992, due serially 1997-2005	4.90-6.00%	17,335	19,325
Series 1992-A, due serially 1997-2011	4.60-6.00%	3,710	16,600
Series 1993, due serially 1997-2008	3.95-5.20%	26,005	27,616
Series 1998, due serially 2000-2012	3.30-5.25%	12,575	—
		<u>59,675</u>	<u>64,686</u>
Unamortized deferred amount on bond refunding		<u>(227)</u>	<u>—</u>
Total Water Division		\$ 59,448	\$ 64,686

Current maturities of long-term debt are not shown as a current liability because sufficient funds are accumulated in escrow accounts or in the bond reserve and debt service funds to meet current maturities. Principal maturities are as follows:

	(\$000)	
	Electric Division	Water Division
1999	\$ 21,195	\$ 5,800
2000	22,345	6,095
2001	23,720	6,420
2002	24,790	6,750
2003	14,500	6,055
Thereafter	52,420	28,555
Total	<u>\$158,970</u>	<u>\$59,675</u>

MLGW, at its option, may redeem bonds prior to maturity at premiums and prices specified in the indentures.

In December 1998, MLGW issued \$12,575,000 in Refunding Bonds, Series 1998, to refund \$12,075,000 of the Water Division Revenue Bonds, Series 1992-A. The net proceeds of \$12,820,000 (after an original premium of \$404,000 and payment of \$159,000 in underwriter's fees and other issue costs) plus \$341,000 of existing funds were used to currently refund Series 1992-A. As a result, the Series 1992-A bonds are considered defeased and the liability for those bonds has been removed from the accounts of the Water Division. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$227,000. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being charged to operations through the year 2012 using the effective-interest method. The Water Division refunded these bonds to reduce its total debt service over the next 14 years by \$1,232,000 and to obtain an economic gain of \$692,000.

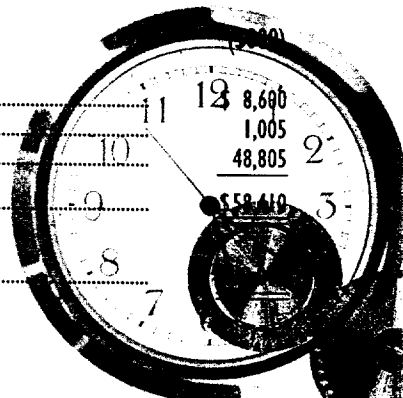
At December 31, 1998, the amounts of bonds and notes which are not recorded as liabilities of MLGW but remain outstanding with escrow agents are as follows:

Electric Division

Revenue Bonds, Series 1976	8,690
Special Obligation Refunding Bonds, Series 1976	1,005
Revenue Bonds, Series 1991	48,805
Total	<u>\$58,490</u>

Water Division

Revenue Bonds, Series 1992-A	
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Notes to financial Statements, cont.

YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 7 – INSURANCE RESERVES FOR MEDICAL BENEFITS AND INJURIES AND DAMAGES

MLGW is self-insured for health and medical benefits, workers compensation and general liability claims. MLGW has established insurance reserves for the estimated liabilities, including an accrual for incurred but not reported claims, resulting from medical benefits, workers compensation and general liability claims. The medical benefits reserves are recorded on the Gas Division and the costs and charges to the reserve are allocated to each Division.

The changes in the insurance reserves for medical benefits and injuries and damages for the years ended December 31, 1998 and 1997 are as follows:

	(\$000)		(\$000)		
	Medical Benefits		Injuries and Damages		
	Gas Division		Electric Division	Gas Division	Water Division
Balance - December 31, 1996	\$ 5,926		\$ 4,006	\$ 1,043	\$ 788
Payments	(18,906)		(1,400)	(558)	(522)
Incurred claims	20,505		1,655	629	368
Balance - December 31, 1997	7,525		4,261	1,114	634
Payments	(20,299)		(1,239)	(475)	(584)
Incurred claims	23,341		820	869	1,153
Balance - December 31, 1998	\$ 10,567		\$ 3,842	\$ 1,508	\$ 1,203

NOTE 8 – ENERGY SUPPLIES

MLGW is committed to purchase all of its power from TVA under a contract, subject to termination by either MLGW or TVA, on not less than ten years' prior written notice. MLGW purchases gas supplies directly from producers and marketers. In addition, MLGW has transportation agreements with Texas Gas Transmission Corporation and Trunkline Gas Company.

NOTE 9 – RATES

Electric, gas and water rates are established by MLGW and approved by the City Council of Memphis, Tennessee, except for pass through increases in electric rates from TVA and gas cost increases from suppliers. Electric rates are established in coordination with TVA.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

As related to futures contracts and swap agreements, risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in gas prices. The Gas Division's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual notional amount of the financial instrument. There were no open futures contracts or swap agreements at December 31, 1998.

Under the Charter of the City of Memphis, the City is entitled to dividends (6 percent annual rate for the Electric Division and the Gas Division and 3 percent for the Water Division) based upon accumulated net revenues, but not to exceed one-half of the annual net revenues for the Electric Division and the Gas Division, unless approved by the MLGW's Board of Commissioners. Under the power contract signed with TVA and under the 1958 Basic Bond Resolution of the Water Division, the City of Memphis has waived its rights to dividends from the Electric Division and the Water Division. Payments in lieu of taxes and dividends to the City of Memphis are also limited by laws established by the State of Tennessee.

In the normal course of operations, the Division is subject to claims and litigation. Management is of the opinion that, based on information presently available, such matters will not have a material adverse effect on the financial position or results of operations of the Division.

NOTE 11 – SELF-INSURANCE

MLGW is self-insured under the Tennessee Governmental Tort Liability Act. This coverage applies to all tort liability coverage and holds harmless commissioners, officers, and general counsel making decisions as authorized by the Board of Commissioner's policies. Various liability limits are in force as established by the acts except as increased by resolution of the Board of Commissioners. The more significant coverage relates to gas leaks, gas explosions and electrical shocks with maximum limits of \$130,000 per person and \$350,000 for two or more persons per accident.

Supplementary Information Required By GASB - Year 2000 Disclosures

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that could adversely affect the Division's operations as early as fiscal year 1999.

MLGW has completed an inventory of their computer systems that may be affected by the Year 2000 issue and that are necessary to conduct their operations. The following systems requiring Year 2000 remediation or validation and testing have been identified:

Service Delivery Systems - The mission critical systems for delivering electricity, gas and water were assessed by December 31, 1998. MLGW has analyzed the service delivery processes end to end, identified embedded components, and has begun testing them for compliance. In most cases, MLGW has performed in-house testing to verify vendor certification and upgrades. Using the existing Emergency Response Plan as a guide, MLGW is developing a Year 2000 contingency plan by June 30, 1999. MLGW has evaluated their supply chain and critical suppliers, such as TVA, gas companies (producers and transporters), and component vendors to state their Year 2000 readiness.

Customer Delivery Systems - MLGW's critical customer delivery systems have been identified, corrected, unit tested and integrated with the production systems. Testing and validation began in the first quarter of 1999 and is scheduled for completion by September 30, 1999. These systems are used to respond to MLGW's customer inquiries and requests and do not directly affect or control the delivery of electricity, gas and water.

Support Systems (internal operations) - MLGW's critical internal systems have been identified, converted, unit tested and integrated with the production systems. Testing and validation began in the first quarter of calendar year 1999 and are scheduled for completion by September 30, 1999.

In addition to the above critical systems, MLGW has completed the assignment of embedded-chip applications throughout the Division, and has begun code correction and testing of these applications. MLGW has related commitments of approximately \$2.5 million as of March 29, 1999.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success or related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that MLGW is or will be Year 2000 ready, that the remediation efforts will be successful in whole or part, or that parties with whom MLGW conducts business will be Year 2000 ready.

Independent Auditors' Report

Board of Commissioners
Memphis Light, Gas and Water Division
Memphis, Tennessee

We have audited the accompanying balance sheets of the Electric, Gas and Water divisions (the "Divisions") of Memphis Light, Gas and Water Division, a division of the City of Memphis, Tennessee, as of December 31, 1998 and 1997, and the related statements of net revenues and accumulated net revenues and cash flows for the years then ended. These financial statements are the responsibility of the management of Memphis Light, Gas and Water Division. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

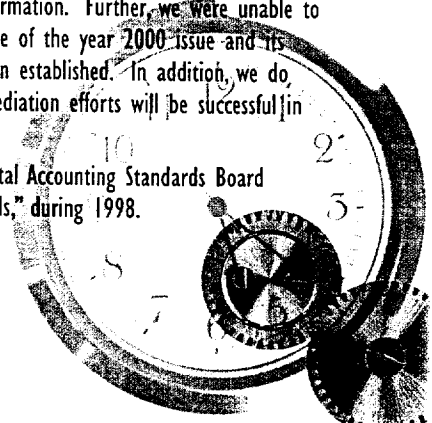
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Gas and Water divisions of Memphis Light, Gas and Water Division as of December 31, 1998 and 1997, and the results of operations and cash flows for the years then ended for each of the Electric, Gas and Water divisions of Memphis Light, Gas and Water Division in conformity with generally accepted accounting principles.

The year 2000 supplementary information above is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Divisions are or will become year 2000 compliant, that the Divisions' year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Divisions do business are or will become year 2000 compliant.

As more fully discussed in Note 1 to the financial statements, the Divisions adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," during 1998.

Deloitte + Touche LLP

March 29, 1999
Memphis, Tennessee

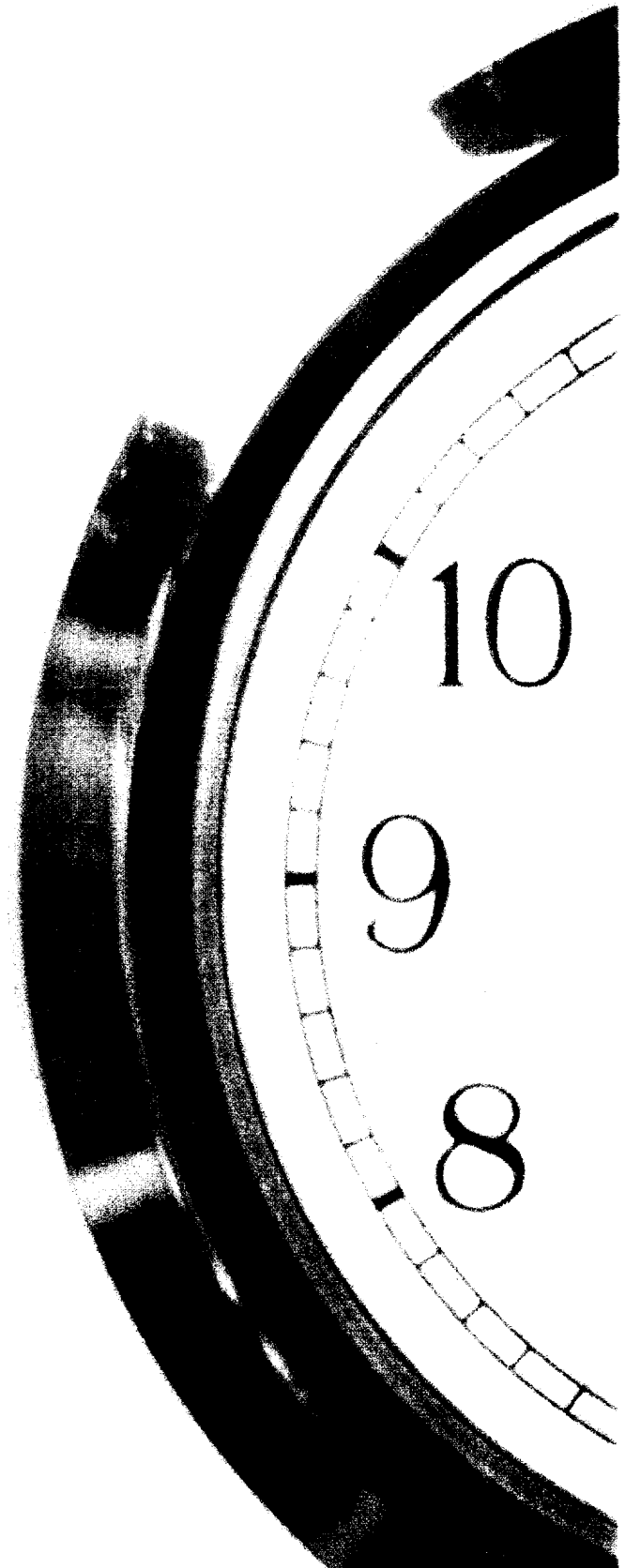




Memphis Light, Gas and Water Division

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Financial Report

MEMPHIS LIGHT, GAS AND WATER DIVISION

JUNE 1999

MEMPHIS LIGHT, GAS AND WATER DIVISION

Financial Statement

June 1999



Memphis Light, Gas and Water Division

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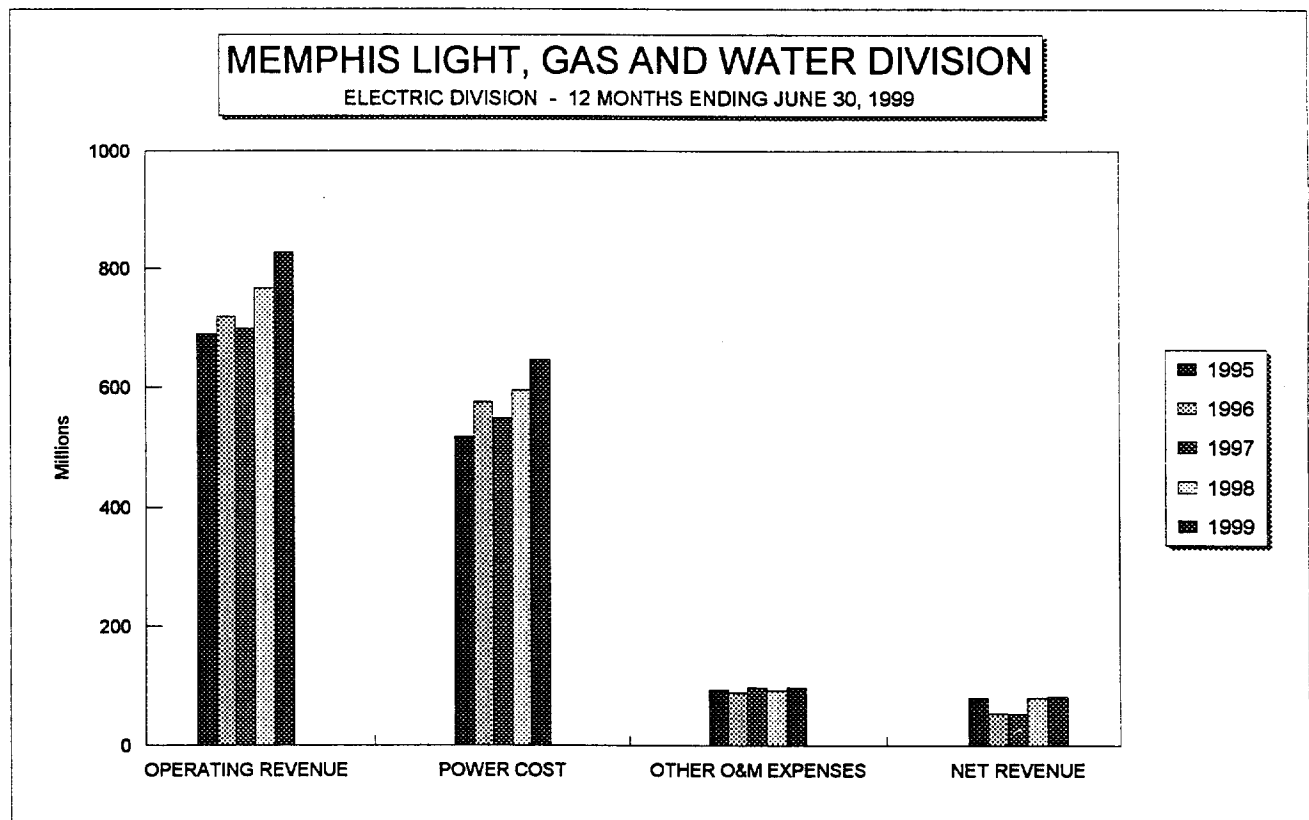
Memphis Light, Gas and Water Division

Electric Division

Highlights

June 30, 1999

		CURRENT MONTH	INCREASE (DECREASE) LAST YEAR	12 MONTHS ENDING	INCREASE (DECREASE) LAST YEAR
OPERATING REVENUE		\$77,094,601.91	(\$5,434,428.60)	\$827,228,840.15	\$60,088,135.50
OPERATION & MAINTENANCE EXP		\$68,467,593.12	(\$5,265,789.86)	\$744,412,428.53	\$58,016,546.48
NET REVENUE FROM OPERATIONS		\$8,627,008.79	(\$168,638.74)	\$82,816,411.62	\$2,071,589.02
POWER COST		\$60,773,738.88	(\$5,560,672.63)	\$646,135,779.45	\$51,754,120.38
WORKING CAPITAL		\$79,697,635	(\$1,583,938)		
SALES (adjusted)	kwh	1,310,008,408	(89,528,667)	13,918,398,157	835,549,798
PURCHASES	kwh	1,433,413,482	(133,667,242)	14,252,270,851	390,113,467
AVERAGE CONSUMPTION PER RESIDENTIAL CUSTOMER	kwh	1,563.7	(215.3)	15,668.4	627.5

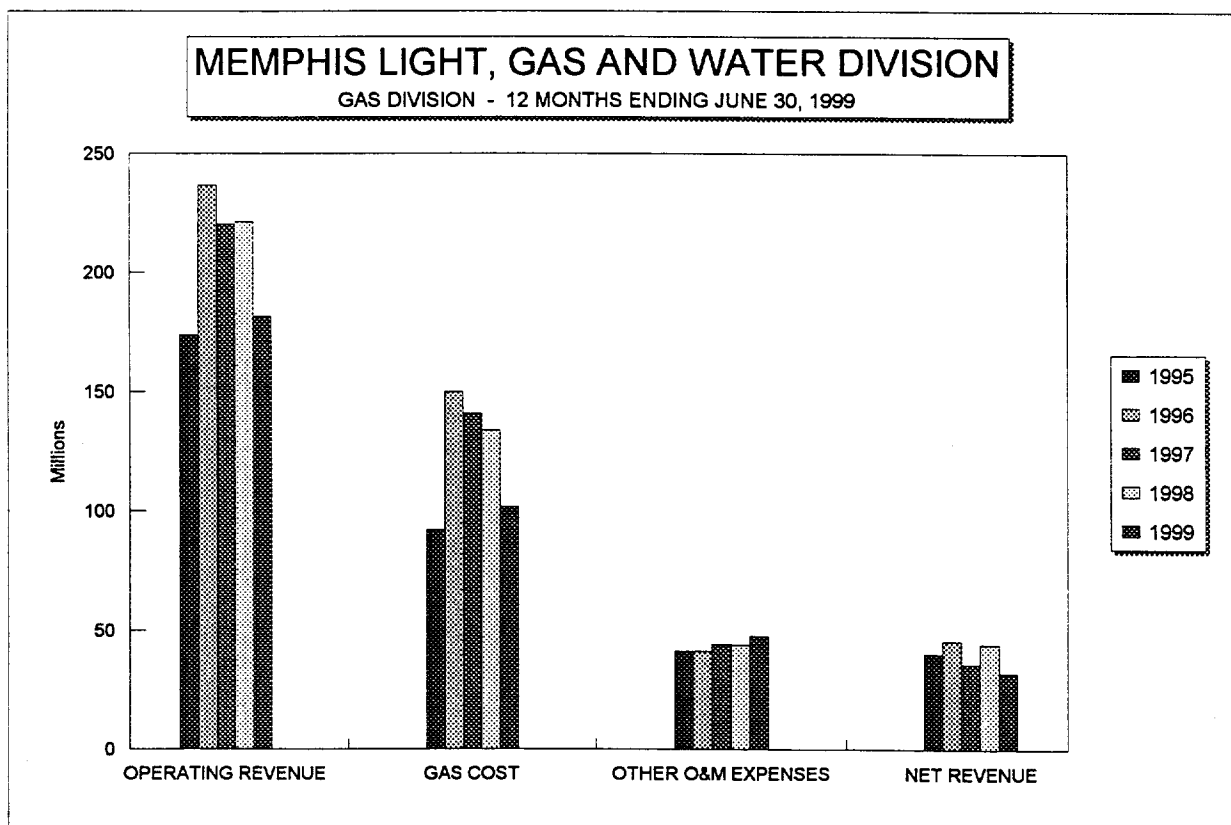


Memphis Light, Gas and Water Division

Gas Division Highlights

June 30, 1999

		CURRENT MONTH	INCREASE (DECREASE) LAST YEAR	12 MONTHS ENDING	INCREASE (DECREASE) LAST YEAR
OPERATING REVENUE		\$9,311,356.40	\$921,435.89	\$181,314,962.95	(\$40,043,695.20)
OPERATION & MAINTENANCE EXP		\$9,772,491.47	\$2,679,492.56	\$149,395,308.57	(\$28,070,266.84)
NET REVENUE FROM OPERATIONS		(\$461,135.07)	(\$1,758,056.67)	\$31,919,654.38	(\$11,973,428.36)
GAS COST		\$6,202,303.01	\$2,367,481.99	\$101,791,243.79	(\$31,888,199.05)
WORKING CAPITAL		\$77,436,977.60	(\$15,021,075)		
SALES	MCF	1,536,481	64,090	37,402,287	(2,879,009)
PURCHASES	MCF	1,587,407	149,978	39,958,774	(1,994,841)
AVERAGE SALES PER RESIDENTIAL CUSTOMER	MCF	1.69	0.04	67.96	(9.99)



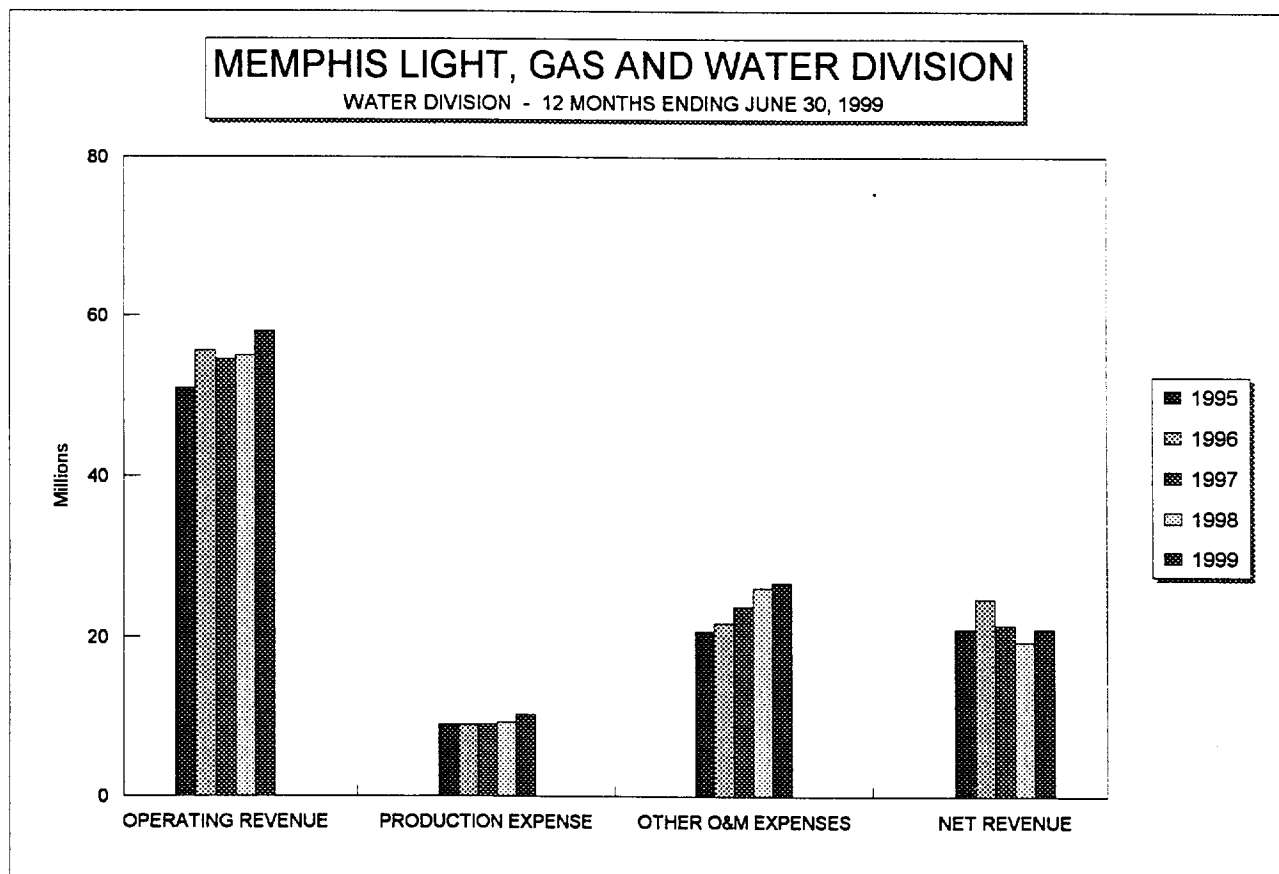
Memphis Light, Gas and Water Division

Water Division

Highlights

June 30, 1999

		CURRENT MONTH	INCREASE (DECREASE) LAST YEAR	12 MONTHS ENDING	INCREASE (DECREASE) LAST YEAR
OPERATING REVENUE		\$5,363,913.72	\$91,428.37	\$57,991,863.75	\$3,113,464.36
OPERATION & MAINTENANCE EXP		\$2,867,019.35	(\$361,102.81)	\$36,995,284.67	\$1,563,972.45
NET REVENUE FROM OPERATIONS		\$2,496,894.37	\$452,531.18	\$20,996,579.08	\$1,549,491.91
PRODUCTION EXPENSE		\$959,524.62	\$12,362.31	\$10,223,023.57	\$943,498.28
DISTRIBUTION EXPENSE		\$606,962.66	(\$314,328.29)	\$9,266,729.86	\$52,043.62
WORKING CAPITAL		\$34,266,569.18	(\$561,363.80)		
SALES	CCF	6,118,310	247,320	62,868,062	2,150,174



Memphis Light, Gas and Water Division

Electric Division

Balance Sheet

June 30, 1999

ASSETS

	<i>June 1999</i>	<i>December 1998</i>
UTILITY PLANT		
Electric Plant in Service	\$911,236,573.86	\$896,777,073.62
Less Depreciation	320,575,245.73	311,891,427.15
Total Plant Net	590,661,328.13	584,885,646.47
 FUNDS AND INVESTMENTS (See Page 24)	 73,940,735.79	 37,637,552.22
 NOTES RECEIVABLE-LONG TERM (Note A)	 1,298,110.75	 1,298,110.75
 CURRENT AND ACCRUED ASSETS		
Cash and Investments-Construction Funds	0.00	0.00
Cash and Investments	53,051,438.17	62,103,598.10
Cash and Securities-Interest Funds	247,722.04	266,902.80
Accrued Interest Receivable	414,783.00	90,783.00
Accts. Rec. (less allowance for doubtful accts.)	65,929,784.08	60,584,521.75
Materials and Supplies	10,645,430.34	10,886,108.22
Prepayments-Taxes	0.00	0.00
Other Current and Accrued Assets	10,158,329.55	344,134.03
Other Current and Accrued Assets-TVA Purchased Power	27,846,199.00	24,511,690.00
Total Current and Accrued Assets	168,293,686.18	158,787,737.90
 DEFERRED DEBITS		
Unamortized Debt Discount, Premium & Expenses	1,236,255.06	1,400,362.38
Extension Notes Receivable	0.00	0.00
TVA Loans	292,974.89	339,130.85
Other Deferred Debits	774,887.34	(25,822.44)
Total Deferred Debits	2,304,117.29	1,713,670.79
 TOTAL ASSETS	 <u>\$836,497,978.14</u>	 <u>\$784,322,718.13</u>

Memphis Light, Gas and Water Division

Electric Division

Balance Sheet

June 30, 1999

LIABILITIES

CAPITALIZATION	June 1999	December 1998
Electric Refunding Bonds, Series 1989	0.00	0.00
Electric Rev. Bonds, Series 1991	2,945,000.00	2,945,000.00
Electric Rev. Refunding Bds., Series 1992	90,435,000.00	90,435,000.00
Electric Rev. Refunding Bds., Series 1992A	10,635,000.00	10,635,000.00
Electric Rev. Refunding Bds., Series 1993	54,955,000.00	54,955,000.00
Total Long-Term Debt	158,970,000.00	158,970,000.00
Advance from TVA-Solar Loan Program	114,290.33	119,696.51
Advance from TVA-Insulation Loan Program	1,077,370.85	1,092,602.64
RETAINED EARNINGS		
Retained Earnings	563,543,284.28	536,484,330.13
Appropriated Retained Earnings - Casualties	10,473,299.94	10,243,979.94
Total Retained Earnings	574,016,584.22	546,728,310.07
Total Capitalization	734,178,245.40	706,910,609.22
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	71,280,807.32	58,352,722.95
Accrued Taxes	11,510,208.80	0.00
Accrued Interest	0.00	0.00
Accrued Vacation	5,773,224.09	5,658,707.53
Total Current and Accrued Liabilities	88,564,240.21	64,011,430.48
DEFERRED CREDITS		
Customer Advances for Construction	4,805,091.59	4,074,408.33
TVA Solar Loans	98,616.99	126,300.42
Other Deferred Credits	114,664.00	120,664.00
Total Deferred Credits	5,018,372.58	4,321,372.75
RESERVES		
Insurance Reserve-Injuries and Damages	3,899,389.55	3,842,450.76
Insurance Conversion Reserve	225,163.37	225,163.37
Reserve for Unused Sick Leave	4,612,567.03	5,011,691.55
Total Reserves	8,737,119.95	9,079,305.68
TOTAL LIABILITIES	\$836,497,978.14	\$784,322,718.13

Memphis Light, Gas and Water Division

Electric Division

Statement of Income and Expenses

June 30, 1999

	CURRENT MONTH		12 MONTHS ENDING	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
OPERATING REVENUE				
Sales Revenue	\$76,135,982.61	\$81,524,739.94	\$815,620,669.36	\$754,362,914.81
Forfeited Discounts	474,556.83	477,661.98	7,441,934.87	6,890,672.79
Misc. Service Revenue	427,514.29	466,223.07	3,362,419.20	5,048,333.96
Rent from Property	61,414.73	61,414.73	736,976.76	736,976.76
Load Management Refunds	0.00	0.00	0.00	0.00
Other Revenue	(4,866.55)	(1,009.21)	66,839.96	101,806.33
TOTAL OPERATING REVENUE	77,094,601.91	82,529,030.51	827,228,840.15	767,140,704.65
OPERATING EXPENSE				
Power Cost	60,773,738.88	66,334,411.51	646,135,779.45	594,381,659.07
Distribution Expense	1,474,488.62	1,450,361.21	21,514,237.76	21,009,311.88
Transmission Expense	120,479.85	141,051.43	2,028,674.26	1,891,565.63
Customer Accounts Expense	1,010,203.31	688,271.89	13,840,341.93	9,266,228.36
Sales Expense	49,452.90	51,041.90	767,677.04	690,582.96
Administrative & General	2,357,114.36	2,366,362.92	31,634,075.86	29,928,959.27
Customer Service & Info. Expense	20,232.67	54,526.26	840,091.53	655,799.03
Total Operating Expense	65,805,710.59	71,086,027.12	716,760,877.83	657,824,106.20
MAINTENANCE EXPENSE				
Transmission Expense	105,650.64	75,434.52	1,334,780.25	1,234,704.30
Distribution Expense	2,241,444.68	2,307,190.64	22,989,506.64	24,360,587.02
Administrative & General	314,787.21	264,730.70	3,327,263.81	2,976,484.53
Total Maintenance Expense	2,661,882.53	2,647,355.86	27,651,550.70	28,571,775.85
OTHER OPERATING EXPENSE				
Depreciation Expense	1,975,162.87	1,900,417.49	23,339,721.22	22,447,028.09
Payment in Lieu of Taxes	1,634,467.50	1,675,582.00	19,957,955.71	18,811,501.54
FICA Taxes	32,914.05	29,994.35	417,877.47	345,038.47
Total Other Operating Expense	3,642,544.42	3,605,993.84	43,715,554.40	41,603,568.10
TOTAL OPERATING EXPENSE	72,110,137.54	77,339,376.82	788,127,982.93	727,999,450.15
INCOME				
Operating Income	4,984,464.37	5,189,653.69	39,100,857.22	39,141,254.50
Other Income	521,040.99	641,665.72	7,891,410.35	7,698,735.10
Other Income-Federal Disaster Relief	0.00	0.00	0.00	0.00
Other Income-TVA Transmission Cr.	1,612,202.00	1,555,872.00	19,459,084.00	18,670,464.00
Total Income	7,117,707.36	7,387,191.41	66,451,351.57	65,510,453.60
Misc. Income Deduct.-Int. Exp.-Other	0.00	2,773.00	9,038.00	56,022.00
NET INCOME BEFORE DEBT EXPENSE	7,117,707.36	7,384,418.41	66,442,313.57	65,454,431.60
DEBT EXPENSE				
Amortization of Debt Disc. & Exp.	27,351.22	32,083.66	356,609.28	411,601.64
Interest Expense-Other				
Interest on Long Term Debt	703,926.00	793,064.00	8,981,940.00	10,027,326.00
Total Debt Expense	731,277.22	825,147.66	9,338,549.28	10,438,927.64
NET INCOME				
Net Income After Debt Expense	\$6,386,430.14	\$6,559,270.75	\$57,103,764.29	\$55,015,503.96
Extraordinary Item	0.00	0.00	0.00	0.00
NET INCOME	\$6,386,430.14	\$6,559,270.75	\$57,103,764.29	\$55,015,503.96

Memphis Light, Gas and Water Division

Electric Division

Application of Revenues For 6 Months

June 30, 1999

REVENUES

Operating		\$371,156,397.54
Interest and Other Income		13,324,734.75
Total		384,481,132.29
Less: Operating & Maintenance Expenses		
Power Cost	289,463,851.38	
Operation	29,488,560.50	
Maintenance	12,009,046.28	330,961,458.16
Net Revenues Available for Fund Requirements & Other Purposes		53,519,674.13

FUND REQUIREMENTS

Debt Service	
Interest-Revenue Bonds-Series 1989	0.00
Interest-Revenue Bonds-Series 1991	94,242.00
Interest-Revenue Refunding Bonds-Series 1992	2,581,368.00
Interest-Revenue Refunding Bonds-Series 1992A	275,928.00
Interest-Revenue Refunding Bonds-Series 1993	1,272,018.00
Sinking Fund Revenue Bonds-Series 1989	0.00
Sinking Fund Revenue Bonds-Series 1991	1,472,502.00
Sinking Fund Revenue Ref Bonds-Series 1992	6,152,502.00
Sinking Fund Revenue Ref Bonds-Series 1992A	2,592,498.00
Sinking Fund Revenue Ref Bonds-Series 1993	379,998.00
Total Debt Service	14,821,056.00

RENEWAL & REPLACEMENT FUND

Renewal & Replacement Fund Requirements	8,388,816.00
Total Fund Requirements	23,209,872.00

OTHER PURPOSES

Tax Equivalent	9,836,341.65
FICA Taxes	221,793.79
Interest Expense-Customer Deposits & Other	0.00
	10,058,135.44
Total Fund Requirements & Other Purposes	33,268,007.44
Balance-After Providing for above Disbursements and Fund Requirements	20,251,666.69

Less: Capital Additions provided by Current Year's Net Revenue 0.00

REMAINDER - To (or From) Working Capital

\$20,251,666.69

Total Capital Additions were paid from:

Renewal and Replacement Funds	*	\$18,185,362.37
Bond Proceeds		
Current Year's Net Revenue		0.00
		<u>\$18,185,362.37</u>

*Includes \$11,194,682.37 to be transferred from R & R Fund

1999 CONSTRUCTION BUDGET

\$52,902,000

TOTAL CONSTRUCTION FUNDS EXPENDED

\$18,185,362

TOTAL CONSTRUCTION FUNDS EXPENDED - Current Month

\$2,833,295

Memphis Light, Gas and Water Division
Electric Division
Operating Statement and Statistics

June 30, 1999

	CURRENT MONTH	INCREASE OVER LAST YEAR	12 MONTHS ENDING	INCREASE OVER LAST YEAR
OPERATING REVENUES				
Residential	\$34,101,708.00	(\$4,197,316.36)	\$342,522,529.55	\$24,662,478.87
Commercial-General Power	34,851,361.63	(1,168,124.51)	381,359,726.27	27,363,891.17
Industrial	6,285,918.19	583,306.30	73,299,956.45	6,788,070.40
Outdoor Lighting & Traffic Signals	375,596.04	(596,796.06)	11,817,631.78	1,213,470.04
Interdepartmental	659,480.47	4,099.16	8,186,910.49	1,358,319.63
Load Management Refunds	0.00	0.00	0.00	0.00
Miscellaneous	948,039.49	(56,251.08)	13,169,559.98	(1,362,166.86)
TVA Industrial Credit	(127,501.91)	(3,346.05)	(3,127,474.37)	64,072.25
Total Operating Revenue	77,094,601.91	(5,434,428.60)	827,228,840.15	60,088,135.50
OPERATING EXPENSES				
Power Cost	60,773,738.88	(5,560,672.63)	646,135,779.45	51,754,120.38
Distribution	3,715,933.30	(41,618.55)	44,503,744.40	(866,154.50)
Transmission	226,130.49	9,644.54	3,363,454.51	237,184.58
Customer Accounts	1,010,203.31	321,931.42	13,840,341.93	4,574,113.57
Sales	49,452.90	(1,589.00)	767,677.04	77,094.08
Administrative & General	2,671,901.57	40,807.95	34,961,339.67	2,055,895.87
Customer Service & Information	20,232.67	(34,293.59)	840,091.53	184,292.50
Total Operating Expenses	68,467,593.12	(5,265,789.86)	744,412,428.53	58,016,546.48
Net Revenue from Operations	\$8,627,008.79	(\$168,638.74)	\$82,816,411.62	\$2,071,589.02

	STATISTICS		AVERAGE
CUSTOMERS			
Residential	343,897	3,670	341,377
Commercial-General Power	41,056	565	40,816
Industrial	138	(24)	150
Outdoor Lighting & Traffic Signals	16,917	432	16,683
Interdepartmental	34	(1)	35
Total Customers	402,042	4,642	399,061

KWH SALES (THOUSANDS)				
Residential	537,741	(67,506)	5,348,841	304,324
Commercial-General Power	594,470	(25,204)	6,459,588	332,229
Industrial	160,223	17,289	1,826,138	46,873
Outdoor Lighting & Traffic Signals	4,454	(6,169)	128,076	13,048
Interdepartmental	12,645	102	154,540	18,328
Total KWH Sales (Thousands)	1,309,533	(81,488)	13,917,183	714,802

Average Consumption per Residential Customer	1,563.67	(215.28)	15,668.43	627.46
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Memphis Light, Gas and Water Division

Electric Division

Statistics

June 30, 1999

SYSTEM ENERGY AND DEMAND CHARGES	ENERGY	DEMAND	TOTAL	12 Months Ending
Residential Class	\$25,510,422.00	\$0.00	\$25,510,422.00	\$253,764,991.00
GSA, Part 1 Class	4,045,505.00	0.00	4,045,505.00	\$43,172,526.00
GSA, Part 2 Class	12,687,093.00	4,073,801.00	16,760,894.00	\$181,909,395.00
GSA, Part 3 Class	4,624,719.00	2,563,015.00	7,187,734.00	\$81,255,063.00
GSB Class	2,209,680.00	1,091,984.00	3,301,664.00	\$37,317,026.00
GSC Class	1,402,633.00	348,636.00	1,751,269.00	\$6,252,892.00
GSD Class	1,738,232.00	523,438.00	2,261,670.00	\$25,657,439.00
Outdoor Lighting Class	136,774.00	0.00	136,774.00	\$3,940,185.00
Time of Day Service Charges	0.00	0.00	0.00	\$72,556.00
Other Non-Firm Power Charges	617.00	0.00	617.00	\$617.00
Drainage Pumping Station Class	1,266.00	0.00	1,266.00	\$19,347.00
Standby Power Class	0.00	0.00	0.00	\$0.00
Proration Adjustment Credit	(7,549.00)	0.00	(7,549.00)	(\$98,554.00)
TOTAL ENERGY AND DEMAND CHARGES	\$52,349,392.00	\$8,600,874.00	\$60,950,266.00	633,263,483.00
OTHER CHARGES				
Distribution Loss Charges	\$1,258,623.00	\$0.00	\$1,258,623.00	\$21,447,242.00
Transmission Loss Credit	0.00	0.00	0.00	\$0.00
Hydro Credit	(852,865.00)	0.00	(852,865.00)	(\$10,159,381.00)
Growth Credit	0.00	0.00	0.00	\$0.00
Enhanced Growth Credit	(252,285.00)	0.00	(252,285.00)	(\$3,070,232.80)
Public Education and Mfg. Credit	(412,269.00)	0.00	(412,269.00)	(\$4,680,904.51)
Delivery Point Charges	67,500.00	0.00	67,500.00	\$810,000.00
ESP Access/Transaction Charges	15,050.00	0.00	15,050.00	\$181,675.00
Miscellaneous Adjustments	(281.12)	0.00	(281.12)	(\$24,338,990.39)
End of Year True-Up	0.00	0.00	0.00	\$1,225,944.00
TOTAL OTHER CHARGES	(\$176,527.12)	\$0.00	(\$176,527.12)	(\$18,584,647.70)
POWER COST	\$52,172,864.88	\$8,600,874.00	\$60,773,738.88	\$646,135,779.45
Interruptible Power Surcharge Credit-ESP	(45,540.00)	0.00	(45,540.00)	(\$536,490.00)
Interruptible Power Surcharge Credit-LIP	(19,772.00)	0.00	(19,772.00)	(227,740.00)
Transmission Rental Credit	(1,612,202.00)	0.00	(1,612,202.00)	(\$19,459,084.00)
U. S. Naval Air Station Credit	(8,566.98)	0.00	(8,566.98)	42,834.90
End of Year True-Up	0.00	0.00	0.00	(7,333,136.07)
TVA INVOICE AMOUNT	\$50,486,783.90	\$8,600,874.00	\$59,087,657.90	\$618,622,164.28

SYSTEM STATISTICS (KWH)	June 1999	Increase (Decrease) Last Year	12 Months Ending	Increase (Decrease) Last Year
Total Energy Purchased	1,433,413,482	(133,667,242)	14,252,270,851	390,113,467
Less Substation Use	609,000	0	7,308,000	0
Net Energy to System	1,432,804,482	(133,667,242)	14,244,962,851	390,113,467
Energy Sales (Adjusted)	1,310,008,408	(89,528,667)	13,918,398,157	835,549,798
Unaccounted For	122,796,074	(44,138,575)	164,522,072	(449,699,940)
Unaccounted For or Loss	8.57%	-2.09%	11.29%	10.48%
Average Hours	1,990,852	(185,649)	3,221,702	537,374
System Max Simultaneous Demand (KW)	2,810,117	(219,475)	2,909,860	(589,603)
Load Factor	70.85%	-0.99%	0.00%	0.00%
POWER COST	\$60,773,738.88	(\$5,560,672.63)	\$646,135,779.45	\$51,754,120.38
Cost per KWH Sold	\$0.0464	(\$0.0010)	\$0.0447	(\$0.0131)

Memphis Light, Gas and Water Division
Electric Division
Statistics

June 30, 1999

	CURRENT MONTH		12 MONTHS ENDING	
	KWH	AMOUNT	KWH	AMOUNT
OPERATING REVENUE BY TOWNS				
City of Memphis	985,417,337	\$58,102,580.73	10,175,833,376	\$570,714,353.88
Incorporated Towns				
Arlington	6,782,892	403,121.08	67,453,533	6,579,803.03
Bartlett	29,174,281	1,811,253.78	275,593,598	17,679,889.72
Collierville	36,732,199	2,224,952.73	348,776,553	21,523,956.09
Germantown	33,161,009	2,064,391.02	335,094,992	21,227,334.73
Lakeland	5,297,818	333,292.60	56,935,249	3,601,228.62
Millington	9,274,272	587,726.42	100,301,669	6,430,461.98
Other Rural Areas	203,693,484	11,567,283.55	2,557,195,039	179,471,812.10
TOTAL OPERATING REVENUE	1,309,533,292	\$77,094,601.91	13,917,184,009	\$827,228,840.15

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

10

JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH	
		NO. BILLS THIS YEAR		OPERATING REVENUE THIS YEAR		KWH SOLD THIS YEAR		REV PER KWH SOLD THIS YEAR		KWH SOLD THIS YEAR		REV PER KWH SOLD THIS YEAR	
		INC. OVER LAST YEAR	OVER LAST YEAR	INCREASE OVER LAST YEAR	OVER LAST YEAR	INCREASE OVER LAST YEAR	OVER LAST YEAR	INCREASE OVER LAST YEAR	OVER LAST YEAR	INCREASE OVER LAST YEAR	OVER LAST YEAR	INCREASE OVER LAST YEAR	OVER LAST YEAR
RESIDENTIAL - URBAN (0101, 0162, 0126, 0128, 1101, 1162, 1182, 1126, 1128, 0182)	E-0101	286,358	27,034,748.00	(11,136,009.50)	425,850,804	262,287,909.45	4,087,617,627	.0635	94.41	376,390,226	.0642	915.94	14275
RESIDENTIAL - RURAL (0102, 0161, 0131, 1102, 1161, 1181)	E-0102	55,739	6,879,534.40	(3,017,882.22)	108,942,760	78,105,878.27	1,227,886,192	.0631	123.42	(71,592,897)	.0636	1401.28	1955
RESIDENTIAL - FARM (0121, 0163, 0183, 1121, 1163, 1183)	E-0121	1,800	187,425.60	(43,424.84)	2,967,701	2,128,742.83	33,313,069	.0636	104.13	(497,986)	.0639	1182.63	1638
COMMERCIAL - FARM (2023, 2323, 2423)	E-2023	17	2,905.66	(847.43)	44,478	39,146.54	578,271	.0653	170.92	(106,910)	.0677	2302.74	2616
COMMERCIAL - ANNUAL (2031, 2331, 2431, 2541, 2741, 2841, 2931, 3031, 3131, 3231, 3331, 3431, 3531, 2041)	E-2031	38,783	34,754,932.00	(1,159,344.93)	593,366,997	6,447,307,838	333,699,163	.0586	896.14	27,475,814.39	.0590	9805.83	15300
COMMERCIAL - SEASONAL (2032, 2332, 2432)	E-2032	23	13,869.40	(2,418.93)	157,232	122,927.87	1,226,760	.0882	603.02	9,828	.1002	5344.69	6836
INDUSTRIAL - ANNUAL (2042, 2242, 2342, 2442, 2542, 2642, 2742, 2842, 2942, 3042, 3142)	E-2042	138	6,210,372.91	(524,552.24)	169,222,530	72,294,212.16	1,826,129,759	.0388	45002.70	17,288,288	.0396	523871.10	1161033
INDUSTRIAL - SEASONAL (2043, 2343)	E-2043		.00	.00		1,004.47	13,120	.0766					13232824

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES
ELECTRIC

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JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	NO. BILLS THIS YEAR	CURRENT MONTH				12 MONTHS ENDING CURRENT MONTH				REV PER KWH SOLD	REVENUE PER BILL	KWH PER BILL			
			THIS YEAR		INCREASE OVER LAST YEAR		THIS YEAR		INCREASE OVER LAST YEAR							
			INC. OVER LAST YEAR	OPERATING REVENUE	KWH SOLD THIS YEAR	INCREASE OVER LAST YEAR	OPERATING REVENUE	KWH SOLD THIS YEAR	INCREASE OVER LAST YEAR							
FACILITIES RENTAL E-2676																
(0576, 2676, 2686, 2776, 2786, 2876, 2886, 2976, 3076, 3176, 3276, 3376, 3476, 3576)			304,895.08		3,604,258.82											
			11,922.08		129,526.19											
PRIVATE OUTDOOR LTG. E-0331		16,799	350,261.18		3,965,311			4,081,346.19		45,977,592		20.85	236			
(0331, 0331, 0303)		438	21,677.96		276,937			281,511.12		3,257,886		242.95	2737			
ATHLETIC LTG. - ENERGY E-0367		118	21,398.07		488,429			120,496.55		3,628,937		181.34	4139			
(0367)		(5)	3,520.03		80,348			52,968.51		2,124,283		1021.16	30754			
ATHLETIC LTG. - INV CHG E-0368			3,936.79					46,816.03								
(0368)			59.23					559.18								
ST. LTG.- MFS.- ENERGY E-0350			(204,706.91)		(4,672,607)			2,458,305.26		56,112,879		0.438				
(0350)			.00					247,372.08		4,932,389		0.438				
ST. LTG.- MFS.-I.C. 9.38 E-0351			(239,373.93)					2,922,969.91								
(0351)			.00					319,139.43								
ST. LTG.- MFS.-I.C. 2 E-0352			(114,099.08)					172,423.94								
(0352)			.00					17,334.06								
ST. LTG.- OTHERS- ENERGY E-0354		(1)	(44,987.72)		(1,020,414)			543,115.51		12,363,644		0.439				
(0354)			.00					73,520.32		1,533,951		0.439				
ST. LTG.- OTHERS-I.C. 29.38 E-0355			(82,236.67)					1,032,752.53								
(0355)			.00					163,102.77								
TRAF. SIG.- MFS.- ENERGY E-0358			(33,270.47)		(757,256)			395,146.70		8,992,979		0.439				
(0358)			.00					45,600.08		927,596		0.439				
TRAF. SYS.- CITY - 9.38 E-0359			.00					.00								
(0359)			.00					.00								

236
27374139
3075420.85
242.95181.34
1021.16.0883
.0888.0438
.033245,977,592
3,257,8863,628,937
2,124,2834,081,346.19
281,511.12120,496.55
52,968.513,965,311
276,937488,429
80,348350,261.18
21,677.9621,398.07
3,520.0316,799
438118
(5)

E-0331

E-0367

E-0331

E-0368

E-0350

E-0351

E-0352

E-0354

E-0355

E-0358

E-0359

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

12

JUNE 30, 1999

RATE SCHEDULE	NO. BILLS THIS YEAR	CURRENT MONTH				12 MONTHS ENDING CURRENT MONTH			
		THIS YEAR		INCREASE OVER LAST YEAR		THIS YEAR		INCREASE OVER LAST YEAR	
		INC. OVER LAST YEAR	OPERATING REVENUE	KWH SOLD THIS YEAR	OPERATING REVENUE	KWH SOLD THIS YEAR	REVENUE	PER KWH SOLD	REVENUE PER BILL
DESCRIPTION									
TRAF. SIG.-OTHER-ENERGY E-0364 (0364)			13,378.50		(76,050)	44,256.16 12,362.49	996,922 270,646	.0444	
TRAF. SYS.- OTHER 9.38 E-0365 (0365)			.00		.00	.00			
DRAINAGE PUMPING (0431, 2045, 2345)	11 (2)		1,480.85 (2,106.03)		41,217 (33,920)	22,305.79 (2,346.78)	629,956 (53,178)	.0359 .0354	134.62 2027.80
INTERDEPARTMENTAL (0369, 2069, 2369, 2469, 2569, 2379, 2479, 3169)	34 (1)		659,480.47 4,099.16		12,645,497 102,719	8,186,911.49 1,358,319.63	154,540,595 18,327,846	.0522 .0530	19396.48 240791.51
SIGN BOARDS (2070, 2370, 2470)	303 (9)		11,572.79 231.39		128,634 1,989	147,213.58 (6,885.83)	1,665,565 (141,107)	.0900 .0884	38.19 485.85
BUS STOP PANELS (2071, 2074)	269 9		5,728.60 169.16		49,271 1,698	66,864.15 (1,717.99)	567,847 (25,105)	.1163 .1178	21.30 248.57
BOOSTER STATION FOR CATV E-2072 (2072, 2073, 2075)	1,650 (145)		60,872.33 (3,807.74)		682,431 (36,360)	661,710.68 (115,601.15)	7,634,457 (1,042,579)	.0892 .0867	36.89 401.04
LOAD GROWTH CREDIT (2489, 2490, 2589, 2590, 2689, 2690, 2789, 2889, 2890, 2989, 3089, 3189, 3289, 3389, 3489, 3589)			.00			110,970.00			
IWA SCHOOLS CREDIT (0191, 0391, 2091, 2391, 2491, 2591, 2691)			10,579.81- (10,579.81)			44,315.08- (44,315.08)			

PCRVI10B

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES
ELECTRIC

JUNE 30, 1999

13

RATE SCHEDULE	DESCRIPTION	NO. BILLS THIS YEAR	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		KWH SOLD THIS YEAR	REV PER KWH SOLD THIS YEAR	REVENUE PER BILL	KWH
			INC. OVER LAST YEAR	OPERATING REVENUE THIS YEAR	INCREASE OVER LAST YEAR	OPERATING REVENUE THIS YEAR				
TVA INDUSTRIAL CREDIT	E-XX92	(110)	127,501.91-	1,482,778.65-						
(2392, 2492, 2592, 2692, 2792, 2892, 2992, 3092, 3192, 3292, 3392, 3492, 3592)			(3,346.05)	(45,170.03)						
NEW ENHANCED CREDIT	E-XX93	(101)	185,694.00-	2,033,067.65-						
(2303, 2403, 2503, 2603, 2703, 2803, 2903, 3003, 3103, 3203, 3303, 3403, 3503)			(84,133.78)	(84,283.45)						
NEW EXP ENHANCED CREDIT	E-XX94		942.20	942.20						
(2304, 2404, 2504, 2604, 2704, 2804, 2904, 3004, 3104, 3204, 3304, 3404, 3504)			(942.20)	(942.20)						
EXPANDED ENHANCED CREDIT	E-XX95	(4)	44,598.00-	606,384.00-						
(2305, 2405, 2505, 2605, 2705, 2805, 2905, 3005, 3105, 3205, 3305, 3405, 3505)			(38,244.00)	(375,342.00)						
TOTALS			76,135,982.61	815,620,669.36						
INLANDS BILLS INCLUDED			1309,533,292	13,917,184,009						
INLANDS BILLS EXCLUDED			(81,487,722)	(714,823,057)						
TOTALS			189,37	2028,70						
INLANDS BILLS INCLUDED			402,042	189,37						
INLANDS BILLS EXCLUDED			4,527	2028,70						
TOTALS			10,348	34616						

Memphis Light, Gas and Water Division

June 30, 1999

**GAS
DIVISION**

Memphis Light, Gas and Water Division

Gas Division

Balance Sheet

June 30, 1999

ASSETS

UTILITY PLANT

	<i>June 1999</i>	<i>December 1998</i>
Gas Plant in Service	\$403,171,147.93	\$388,363,790.12
Plant Held for Future Use	212,498.90	212,498.90
Non-Utility Plant	2,958,025.75	2,958,025.75
Total Plant	406,341,672.58	391,534,314.77
Less Depreciation	132,397,716.98	126,998,698.82
Total Plant Net	273,943,955.60	264,535,615.95

FUNDS AND INVESTMENTS (See Page 25)

	52,389,633.79	21,910,872.36
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CASH AND SECURITIES-CUSTOMERS SERVICE DEPOSIT FUND

	15,448,939.57	14,566,242.49
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CURRENT AND ACCRUED ASSETS

Cash and Investments	66,399,610.61	75,778,189.33
Purchased Gas Investments	0.00	0.00
Cash and Securities-Interest Funds	0.00	0.00
Accrued Interest Receivable on Gov. Securities	58,271.16	71,728.97
Accts. Rec. (less allowance for doubtful accts.)	15,008,905.01	24,388,259.87
Materials and Supplies	2,990,671.80	3,836,322.29
Prepayments-Insurance, Taxes or Dividends	474,370.42	211,567.35
Other Current and Accrued Assets	3,282,959.37	2,232,594.40
Gas Stored-LNG Plant	3,575,963.19	2,751,441.28
Deferred Gas Cost	1,373,491.00	8,207,590.00
Total Current and Accrued Assets	93,164,242.56	117,477,693.49

DEFERRED DEBITS

Extension Notes Receivable	0.00	0.00
Unrecovered Purchased Gas Cost	0.00	0.00
Other Deferred Debits	2,250,136.05	2,329,078.26
Total Deferred Debits	2,250,136.05	2,329,078.26

TOTAL ASSETS

	<u>\$437,196,907.57</u>	<u>\$420,819,502.55</u>
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Memphis Light, Gas and Water Division

Gas Division Balance Sheet

June 30, 1999

LIABILITIES

CAPITALIZATION

	<i>June 1999</i>	<i>December 1998</i>
Long Term Debt	\$0.00	\$0.00

RETAINED EARNINGS

Retained Earnings	384,351,656.43	353,340,642.99
Appropriated Retained Earnings - Casualties	4,018,090.53	3,991,876.53
Total Retained Earnings	388,369,746.96	357,332,519.52
Total Capitalization	388,369,746.96	357,332,519.52

CURRENT AND ACCRUED LIABILITIES

Accounts Payable	12,178,761.82	25,155,705.86
Accrued Taxes	1,024,398.43	0.00
Accrued Interest	0.00	0.00
Accrued Vacation	2,524,104.71	2,433,010.15
Total Current and Accrued Liabilities	15,727,264.96	27,588,716.01

DEFERRED CREDITS

Medical Benefits	9,905,871.18	9,354,885.31
Short Term Salary Continuation	1,217,357.71	1,212,224.08
Customer Advances for Construction	427,780.72	302,420.22
Deferred Credits-Community Service Agency	0.00	0.00
Miscellaneous Deferred Credits	2,409,613.86	6,698,904.62
Total Deferred Credits	13,960,623.47	17,568,434.23

RESERVES

Customer Service Deposits	15,448,939.57	14,566,242.49
Insurance Reserve-Injuries and Damages	1,602,459.39	1,507,794.84
Retirement Payments Based on Unused Sick Leave	2,087,873.22	2,255,795.46
Total Reserves	19,139,272.18	18,329,832.79

TOTAL LIABILITIES

\$437,196,907.57	\$420,819,502.55
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Memphis Light, Gas and Water Division

Gas Division

Statement of Income and Expenses

June 30, 1999

	CURRENT MONTH		12 MONTHS ENDING	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
OPERATING REVENUE				
Sales Revenue	\$8,339,989.86	\$7,600,966.05	\$164,872,711.05	\$208,205,305.81
Forfeited Discounts	83,239.93	98,479.11	1,906,430.10	2,703,697.90
Misc. Service Revenue	149,050.36	(149,386.39)	1,856,211.51	1,173,520.16
Rent from Property	131,168.81	131,168.81	1,574,025.72	1,574,025.72
Transported Gas	605,242.05	705,429.82	11,064,643.68	7,666,059.44
Other Revenue	2,665.39	3,262.64	40,940.89	36,049.12
TOTAL OPERATING REVENUE	9,311,356.40	8,389,920.04	181,314,962.95	221,358,658.15
OPERATING EXPENSE				
Production Expense	261,036.97	66,406.91	1,906,720.20	1,448,280.18
Gas Cost	6,202,303.01	3,834,821.02	101,791,243.79	133,679,442.84
Distribution Expense	855,057.60	875,509.02	13,644,630.63	12,082,149.90
Customer Accounts Expense	613,634.03	529,915.42	7,224,525.97	6,732,930.14
Sales Expense	21,821.98	23,376.64	376,143.47	335,740.89
Administrative & General	1,246,069.28	1,195,291.27	16,567,491.34	15,499,473.88
Customer Service & Info. Expense	18,512.60	41,957.07	679,038.88	608,373.15
Total Operating Expense	9,218,435.47	6,567,277.35	142,189,794.28	170,386,390.98
MAINTENANCE EXPENSE				
Production Expense	42,004.24	19,319.30	401,611.00	300,003.24
Distribution Expense	365,281.74	390,470.19	5,307,764.25	5,450,956.66
Administrative & General	146,770.02	115,932.07	1,496,139.04	1,328,224.53
Total Maintenance Expense	554,056.00	525,721.56	7,205,514.29	7,079,184.43
OTHER OPERATING EXPENSE				
Depreciation Expense	779,088.68	728,052.50	9,080,999.16	7,959,278.45
Payment in Lieu of Taxes	166,769.80	166,769.80	2,001,237.60	2,001,237.60
FICA Taxes	15,590.86	14,207.85	198,689.68	163,437.55
Total Other Operating Expense	961,449.34	909,030.15	11,280,926.44	10,123,953.60
TOTAL OPERATING EXPENSE	10,733,940.81	8,002,029.06	160,676,235.01	187,589,529.01
INCOME				
Operating Income	(1,422,584.41)	387,890.98	20,638,727.94	33,769,129.14
Other Income	3,946,542.93	870,971.05	11,116,425.49	8,061,720.53
Total Income	2,523,958.52	1,258,862.03	31,755,153.43	41,830,849.67
Misc. Income Deduct.-Int. Exp.-Other	0.00	1,313.00	4,281.00	26,534.00
NET INCOME BEFORE DEBT EXPENSE	2,523,958.52	1,257,549.03	31,750,872.43	41,804,315.67
DEBT EXPENSE				
Amortization of Debt Disc. & Exp.	0.00	0.00	0.00	0.00
Interest on Long Term Debt	0.00	0.00	0.00	0.00
Total Debt Expense	0.00	0.00	0.00	0.00
NET INCOME				
Net Income After Debt Expense	\$2,523,958.52	\$1,257,549.03	\$31,750,872.43	\$41,804,315.67
Dividends to the City	699,768.90	699,768.90	8,397,232.80	8,397,226.30
NET INCOME AFTER DIVIDENDS	\$1,824,189.62	\$557,780.13	\$23,353,639.63	\$33,407,089.37

Memphis Light, Gas and Water Division
Gas Division
Application of Revenues For 6 Months

June 30, 1999

REVENUES

Operating		\$118,111,894.09
Interest and Other Income		6,938,577.19
Total		<u>125,050,471.28</u>
Less: Operating & Maintenance Expenses		
Gas Cost	62,716,799.45	
Production	1,093,603.97	
Operation	17,333,284.85	
Maintenance	<u>2,927,885.45</u>	
		<u>84,071,573.72</u>
Net Revenues Available for Fund Requirements & Other Purposes		40,978,897.56

FUND REQUIREMENTS

Debt Service	
Sinking Fund Revenue Bonds-Series 1984	0.00
Interest-Revenue Bonds-Series 1984	<u>0.00</u>
Total Debt Service	0.00

RENEWAL & REPLACEMENT FUND

Renewal & Replacement Fund Requirements	<u>5,850,484.49</u>
Total Fund Requirements	5,850,484.49

OTHER PURPOSES

Tax Equivalent	1,000,618.80
FICA Taxes	105,807.94
Dividends to City	4,198,613.40
Interest Expense-Customer Deposits & Other	<u>0.00</u>
Total Fund Requirements & Other Purposes	<u>11,155,524.63</u>
Balance-After Providing for above Disbursements and Fund Requirements	29,823,372.93

Less: Capital Additions provided by Current Year's Net Revenue 0.00

REMAINDER - To (or From) Working Capital

\$29,823,372.93

Total Capital Additions were paid from:

Renewal and Replacement Funds	*	\$15,601,207.92
Current Year's Net Revenue		<u>0.00</u>
		<u><u>\$15,601,207.92</u></u>

*Includes \$10,732,921.51 to be transferred from the R&R Fund

1999 CONSTRUCTION BUDGET

\$32,821,000

TOTAL CONSTRUCTION FUNDS EXPENDED

\$15,601,208

TOTAL CONSTRUCTION FUNDS EXPENDED - Current Month

\$6,110,583

Memphis Light, Gas and Water Division

Gas Division

Operating Statement and Statistics

June 30, 1999

	CURRENT MONTH	INCREASE OVER LAST YEAR	12 MONTHS ENDING	INCREASE OVER LAST YEAR
OPERATING REVENUES				
Residential	\$3,676,735.87	\$359,189.12	\$95,265,795.14	(\$25,439,266.98)
Commercial-General Service	3,027,409.62	464,720.96	49,770,385.59	(14,971,420.66)
Industrial	817,786.82	(45,047.41)	11,066,648.73	(2,148,744.97)
Thomas H. Allen	0.00	0.00	(116,083.00)	0.00
Interdepartmental	7,827.55	1,265.43	200,868.09	(36,563.80)
Transported Gas	605,242.05	(100,187.96)	11,064,635.70	3,398,581.96
Miscellaneous	366,124.49	282,600.22	5,376,025.57	(105,380.55)
Spot Gas	810,230.00	(41,104.47)	8,686,687.13	(740,900.20)
Total Operating Revenue	9,311,356.40	921,435.89	181,314,962.95	(40,043,695.20)

OPERATING EXPENSES				
Production	303,041.21	217,315.00	2,308,331.20	560,047.78
Gas Cost	6,202,303.01	2,367,481.99	101,791,243.79	(31,888,199.05)
Distribution	1,220,339.34	(45,639.87)	18,952,394.88	1,419,288.32
Customer Accounts	613,634.03	83,718.61	7,224,525.97	491,595.83
Sales	21,821.98	(1,554.66)	376,143.47	40,402.58
Administrative & General	1,392,839.30	81,615.96	18,063,630.38	1,235,931.97
Customer Service & Information	18,512.60	(23,444.47)	679,038.88	70,665.73
Total Operating Expenses	9,772,491.47	2,679,492.56	149,395,308.57	(28,070,266.84)
Net Revenue from Operations	(\$461,135.07)	(\$1,758,056.67)	\$31,919,654.38	(\$11,973,428.36)

	STATISTICS		AVERAGE
Residential	278,544	3,870	276,855
Commercial-General Service	21,394	372	21,237
Industrial	69	(5)	71
Interdepartmental	19	(1)	19
Transported Gas	61	2	62
Total Customers	300,087	4,238	298,244

MCF SALES				
Residential	471,833	18,325	18,815,343	(2,315,062)
Commercial-General Service	562,562	63,602	1,600,434	(12,247,088)
Industrial	226,429	(2,011)	13,548,193	11,247,625
Thomas H. Allen	0	0	0	0
Interdepartmental	1,167	54	46,099	219
Spot Gas	274,490	(15,880)	3,392,218	435,297
Total MCF Sales	1,536,481	64,090	37,402,287	(2,879,009)

Average Sales per Residential Customer	1.69	0.04	67.96	(9.99)
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Memphis Light, Gas and Water Division

Gas Division Statistics

June 30, 1999

14.730 P.S.I.A.

	CURRENT MONTH		12 MONTHS ENDING	
	MCF	AMOUNT	MCF	AMOUNT
PURCHASED GAS				
GAS COSTS				
Texas Gas Nominated No-Notice	1,090,128	\$2,598,592	17,905,022	\$36,926,414
Texas Gas Firm Transportation	0	0	2,233,583	4,385,424
Texas Gas Interruptible Transportation	0	0	14,488	32,736
Trunkline Firm Transportation	1,157,184	2,590,263	19,283,177	38,549,466
Trunkline Interruptible Transportation	0	0	0	0
TRANSPORTATION COSTS				
Texas Gas No-Notice Service	0	\$606,457	0	\$18,326,090
Texas Gas Firm Transportation	0	0	0	1,363,607
Texas Gas Interruptible Transportation	0	0	0	3,277
Trunkline Gas Firm Transportation	0	485,361	0	6,266,284
Trunkline Interruptible Transportation	0	0	0	0
OTHER				
Refunds - Texas Gas	0	\$0	0	\$0
Refunds - Trunkline	0	0	0	0
Penalties - Texas Gas	0	0	0	(146,757)
Penalties - Trunkline	0	0	0	(321,971)
Gas Supply Realignment Costs	0	0	0	0
Imbalance Cashout - Texas Gas	0	0	0	0
Imbalance Cashout - Trunkline	0	0	211,698	445,169
<hr/>				
NET BILLING FOR PURCHASED GAS	2,247,312	\$6,280,673	39,647,968	\$105,829,739
*Storage Withdrawal	0	0	4,129,007	8,362,801
*Storage Injection	(659,905)	(1,572,024)	(3,818,201)	(8,517,438)
*Revaluation of Storage Withdrawal Balance	0	(909,574)	0	(1,618,666)
NET COST FOR PURCHASED GAS	1,587,407	\$3,799,075	39,958,774	\$104,056,436

*STORAGE REPORTED ON SEASONAL BASIS

Memphis Light, Gas and Water Division

Gas Division Statistics

June 30, 1999

14.730 P.S.I.A.

	CURRENT MONTH		12 MONTHS ENDING	
	MCF	AMOUNT	MCF	AMOUNT
GAS DELIVERY TO SYSTEM				
Gas Delivery (excl LNG)	1,228,688	\$2,974,050	36,235,145	\$97,138,113
Gas Delivery to LNG Plant	358,719	825,025	3,643,691	7,093,071
LNG Plant to Texas Gas Transmission	0	0	(79,941)	(174,748)
NET DELIVERY TO DIVISION	1,587,407	\$3,799,075	39,958,777	\$104,056,436
Tail Gas from LNG Plant	193,039	\$420,252	2,692,640	5,503,277
Vaporized LNG Gas	0	0	1,318	2,881
LNG Plant to Texas Gas	0	0	79,941	174,748
Gas Delivery to LNG Plant	(358,719)	(825,025)	(3,643,691)	(7,093,071)
TOTAL DELIVERED TO SYSTEM	1,421,727	\$3,394,302	38,888,522	\$102,644,268
Plus End User Transport - Texas Gas	2,132,003	xxx	31,049,896	xxx
Plus End User Transport - Trunkline	798,455	xxx	4,114,931	xxx
Less Gas Used for Fuel - LNG Plant	3,161	\$6,948	80,127	\$176,341
Less Gas Sales	4,067,491	xxx	73,379,367	xxx
Gas Distribution System Loss	<u>281,533</u>	xxx	<u>593,855</u>	xxx
% Gas Distribution System Loss	6.47%		0.80%	
UNNOMINATED NO-NOTICE STORAGE				
Beginning Month Inventory	4,785,874	xxx		
Ending Month Inventory	5,445,779	xxx		
Net Change in Inventory	659,905	xxx		
Estimated Cost of Storage Takings	xxx	\$0		
	LNG PLANT - ARLINGTON		LNG PLANT - CAPLEVILLE	
	TANK LEVEL	CURRENT MONTH	TANK LEVEL	CURRENT MONTH
	Feet	MCF	Feet	MCF
Beginning Month	99' 0-2/16"	799,285	60.04801'	652,656
Plus Input		0		358,719
Less Output		17,147		175,892
Unaccounted For - Gain or (Loss)		287		483
End of Month	96' 11-1/16"	782,425	76.92427'	835,966
Average Gas Cost/MCF		\$2.39		

Memphis Light, Gas and Water Division

Gas Division Statistics

June 30, 1999

14.90 P.S.I.A.

	CURRENT MONTH		12 MONTHS ENDING	
	MCF	AMOUNT	MCF	AMOUNT
OPERATING REVENUE BY TOWNS				
City of Memphis	1,336,192	\$7,737,436.68	29,660,133	\$140,728,918.21
Incorporated Towns				
Arlington	9,891	43,520.65	167,967	655,751.69
Bartlett	14,091	120,908.93	637,431	3,260,663.64
Collierville	30,213	182,982.85	851,534	3,980,871.84
Germantown	24,230	158,141.06	827,923	3,933,315.96
Lakeland	3,817	28,037.23	131,305	655,284.08
Millington	6,371	42,951.95	179,424	894,247.24
Other Rural Areas	111,676	997,377.05	4,946,570	27,205,910.29
TOTAL OPERATING REVENUE	1,536,481	\$9,311,356.40	37,402,287	\$181,314,962.95

DEFERRED GAS COST \$1,373,491.00

MAPCO PIPELINE REVENUE \$206,225.50 \$2,943,378.70

14.730 P.S.I.A.
STATISTICS

	MCF	DATE	MCF	DATE
Maximum Hour (Snap)	13,384	06-08-99	26,907	01-04-99
Maximum Day Delivery	223,405	06-10-99	575,516	01-04-99
Maximum Hour:				
LNG to Texas Gas Transmission				
LNG to Memphis System				
Total LNG Delivery				

WEATHER CONDITIONS

	MONTH		SEASONAL	
	Actual	Normal	Actual	Normal
Degree Day Deficiency at Avg Temperature	1	22	2594	3227
Average Temperature for Month	79.5	78.6		

LNG INVENTORY VALUATION

	MCF	MMBTU	AMOUNT
Beginning of Month	1,451,941	1,504,211	\$3,169,511
To/From Storage	165,680	171,645	404,773
Gain(Loss)	770	797	1,679
End of Month	1,618,391	1,676,653	\$3,575,963

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES
GAS

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JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	CURRENT MONTH				12 MONTHS ENDING CURRENT MONTH				CURRENT MONTH			
		NO. BILLS THIS YEAR		OPERATING REVENUE THIS YEAR		CCF SOLD THIS YEAR		OPERATING REVENUE THIS YEAR		CCF SOLD THIS YEAR		REVENUE PER BILL	
		INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	REV PER CCF SOLD	CCF PER BILL
RESIDENTIAL (0101, 0126, 0128)	G-0101	202,101 12,028	2,760,191.18 314,260.61	916,544.69 44,928.51	1,116,025 32,117	3,602,304 151,130	68,115,395.01 (18,916,117.81)	53,377,737 (8,759,931)	7662 .5054	134,771,927 (14,394,689)	7662 .5054	13.66 337.04	18 667
RESIDENTIAL (0301, 0302, 0326, 0328)	G-0301	76,443 (8,158)					27,150,400.13 (8,523,149.17)	53,377,737 (8,759,931)	.8213 .5086			11.99 355.17	15 698
COMMERCIAL (0531)	G-0531			.00 .00			22,286.74 22,286.74	70,313 70,313	.3170				
COMMERCIAL (0731)	G-0731	20,946 330	1,869,579.32 493,699.88		3,054,553 710,334	32,561,872.64 (9,080,446.28)	69,672,211 (6,420,418)	.6121 .4674		89.26 1554.56			146 3326
INTERDEPARTMENTAL (0769)	G-0769	18 1	3,898.88 (82.47)		4,904 (2,323)	121,683.24 (17,867.91)	268,151 9,114	.7950 .4538		216.60 6760.18			272 14897
INDUSTRIAL (0842)	G-0842	22 (2)	68,443.65 (516.33)		163,987 (2,811)	904,890.31 (159,565.94)	2,508,898 64,782	.4174 .3607		3111.08 41131.38			7454 114041
COMMERCIAL (0831, 0931)	G-0931	420 41	846,094.78 24,939.62		1,652,144 26,505	13,183,857.82 (4,279,893.87)	33,825,583 (3,942,153)	.5121 .3898		2014.51 31390.14			3934 80537
INDUSTRIAL (0942)	G-0942	32 (1)	364,883.57 (39,806.58)		935,302 (88,649)	4,682,051.62 (1,437,564.03)	13,649,576 (988,493)	.3901 .3430		11402.61 146314.11			29228 426549
INTERDEPARTMENTAL (0969)	G-0969	1 (2)	3,928.67 1,347.90		6,765 2,860	79,184.85 (18,695.89)	211,081 12,458	.5807 .3751		3928.67 79184.85			6765 211081
COMMERCIAL (1031)	G-1031	28 1	311,735.52 (53,918.54)		918,924 (100,818)	4,002,368.39 (1,633,367.25)	13,190,871 (1,626,619)	.3392 .3034		11133.41 142941.73			32819 471103

MEMPHIS LIGHT, GAS AND WATER DIVISION OPERATING REVENUES BY RATE SCHEDULES GAS									
JUNE 30, 1999									
		CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH					
RATE SCHEDULE	DESCRIPTION	NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	REV PER CCF SOLD	REVENUE PER BILL	CCF
		INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	12 MO. END	CURRENT MONTH	MO.
INDUSTRIAL - SEASONAL (2743)	XG-1743		.00		5.53		3-		
			.00		310.93		605	.8433	
INCREMENTAL PRICING (1942)	G-1942		.00		.00				
			.00		.00				
ECONOMIC DEV. CREDIT (0830, 0930, 1030, 1230)	G-0830		.00		.00				
			.00		5,897.88				
TOTALS		300,026	7,529,759.86	12,619,912	156,183,784.55	340,070,406	.5967	25.10	42
		4,236	780,128.10	799,694	142,593,928.53	(33,175,246)	.4593	520.57	1133
		5,904							
TOTALS BILLS INCLUDED) DENOTES RED FIGURE									

INALS BILLS INCLUDED
, DENOTES RED FIGURE

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

JUNE 30, 1999

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RATE SCHEDULE	NO. BILLS THIS YEAR	INC. OVER LAST YEAR	CURRENT MONTH			12 MONTHS ENDING CURRENT MONTH			REV PER CCF SOLD	REVENUE PER BILL	CCF PER BILL
			OPERATING REVENUE THIS YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	OPERATING REVENUE THIS YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR			
DESCRIPTION											
TRANSPORTED INDUSTRIAL T-0842 (3842)			.00	.00	.00	.00	.00	.00			
TRANSPORTED COMMERCIAL T-0931 (3931)			.00	.00	.00	.00	.00	.00			
TRANSPORTED INDUSTRIAL T-0942 (3942)	1	1	22,247.58	22,247.58	83,995	210,015.22	822,294	709,743	.2649	22247.58	83995
					83,995	171,745.91			.2554	210015.22	822294
TRANSPORTED COMMERCIAL T-1031 (4031)			.00	.00	.00	.00	.00	.00			
TRANSPORTED INDUSTRIAL T-1042 (4042)			.00	.00	.00	(1,144.00)	.00	.00			
TRANSPORTED INDUSTRIAL T-1242 (5242)			.00	.00	.00	.00	.00	.00			
ECONOMIC DEV. CREDIT (3830, 3930, 4030, 5230, 7230)	(1)		19,887.08			137,634.34-					
						34,448.51					
INTERRUPT TRANS IT-1 COMM T-7231 (7231)	9		115,691.45	21,676.49	722,102	1,182,147.16	7,665,713	3,052,518	.1602	12854.61	80234
					128,837	315,128.91			.1583	131349.68	829524
INTERRUPT TRANS IT-1 IND T-7242 (7242)	27	2	297,527.28	(78,628.89)	7,786,646	4,468,777.62	89,024,966	12,227,813	.0382	11019.53	288394
					819,755	74,775.10			.0499	165510.28	3319443
INTERRUPT TRANS IT-1 SEAS T-7243 (7243)			.00	.00	.00	.00	.00	.00			

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES
TRANSPORTATIONAL GAS

JUNE 30, 1999

RATE SCHEDULE	NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		CCF SOLD THIS YEAR	REV PER CCF SOLD	PER BILL	REVENUE CCF PER BILL	CCF PER BILL
			INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR					
DESCRIPTION	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	12 MO.	END	CURRENT	MONTH	MO.
INTERRUP TRANS IT-2 COMM T-7331 (7331)		.00	.00	.00	.00	.00					
INTERRUP TRANS IT-2 IND T-7342 (7342)	7 1	219,654.39 (54,205.15)	16,253,278 (3,366,459)	4,750,606.88 1,603,763.36	253,485,265 28,703,310	.0135 .0187	31379.20	678638.13	2321897	36212181	
INTERRUP TRANS IT-2 SEAS T-7343 (7343)		.00	.00	.00	.00						
INTERRUP TRANSP: IT-1 CASHOUT (3731)	14 (1)	12,653.96 (33,379.91)		180,649.55- (105,071.15)	(7,093)		903.85	12903.54			
INTERRUP TRANSP: IT-2 CASHOUT (5731)	3	62,532.61- 2,215.03		771,380.69 1,304,937.60	3,205,530		20844.20	257126.90			
TOTALS	61 2	605,242.05 (100,187.77)	24,846,021 (2,333,872)	11,064,643.68 3,398,584.24	351,398,238 47,871,821	.0244 .0315	9922.00	181387.60	407312	5760627	

INALS BILLS INCLUDED
() DENOTES RED FIGURE

PCRVI10B

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

JUNE 30, 1999

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RATE SCHEDULE	NO. BILLS THIS YEAR	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		CCF SOLD THIS YEAR	REV PER CCF SOLD THIS YEAR	REVENUE PER BILL	CCF PER BILL
		OPERATING THIS YEAR	INC. OVER LAST YEAR	OPERATING THIS YEAR	INCREASE OVER LAST YEAR				
SPOT GAS (5842)	S-0842		.00		.00				
SPOT GAS (5931)	S-0931		.00		.00				
SPOT GAS (5942)	S-0942		.00		.00	(143,163)			
SPOT GAS (6031)	S-1031	40,349.60	.00	113,569	.81	681,223	.3553		
SPOT GAS (6042)	S-1042	13,116.72	.00	41,026	.41	530,657	.3197		
SPOT GAS (6242)	S-1242		.00		.00	253,305	.2777		
SPOT GAS (6743)	S-1743		.00		.00				
SPOT GAS (5830, 6030, 6230)	S-5830		.00		.00				
SPOT GAS II-1 ECO DEV CR (8230)	S-8230		.00		.00				
SPOT GAS II-1 COMMERCIAL (8231)	S-8231	335,127.27	.32	1,173,554	.39	14,588,514	.2856		

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MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	REV PER CCF SOLD	REVENUE PER BILL	CCF
		INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR								
POT GAS IT-1 INDUSTRIAL S-8242		421,636.41	1,416,747	4,600,460.08	18,152,484								
2242)		(43,107.96)	(119,442)	(1,364,683.62)	(715,563)								

POT GAS IT-1 SEASONAL S-8243 .00 .00

TOTALS

810,230.00	2,744,896	8,686,694.69	33,952,878	2952	.00
(41,104.29)	(158,808)	(740,898.04)	4,385,587	2558	.00

INALS BILLS INCLUDED
) DENOTES RED FIGURE

TOTAL REGULAR + SPOT

JUNE 30, 1999

300,026	8,339,989.86	15,364,808	164,870,479.24	374,023,284
4,236	739,023.81	640,886	(43,334,826.57)	(28,789,659)

TOTAL GAS

JUNE 30, 1999

300,087	8,945,231.91	15,364,808	175,935,122.92	374,023,284
4,238	638,836.04	640,886	(39,936,242.33)	(28,789,659)
5,904				

INALS BILLS INCLUDED
) DENOTES RED FIGURE

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES
PGA

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JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH		CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH	
		NO. BILLS THIS YEAR	INC. OVER LAST YEAR	OPERATING REVENUE THIS YEAR	INCREASE OVER LAST YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	INCREASE OVER LAST YEAR	CCF SOLD THIS YEAR	REV PER CCF SOLD	REVENUE PER BILL	CCF PER BILL	CCF THIS YEAR
PGA RESIDENTIAL-	6-0101	187,035	55,355.02	200,895.76	187,035	3,594,268	5,504,217.00-	134,551,947	134,551,947	0.154	29.43	19	19
		8,773	200,895.76		763	153,929	(10,857,404.16)	(14,294,632)		0.0409		719	
PGA APT OMR-REQ**	6-0126	(9)	227.65	1,008.03	(9)	18,640	15,583.10-	(357,904)	351,204	0.122	20.42	24	24
			1,008.03		23	7,093-	(36,261.90)		(357,904)	0.0444		308	
PGA APT OMR-NON REQ**	6-0128	(25)	7.14-	(373.80)	(25)	2,161	3,501.40	61,884-	205,191	0.0566	152.23	2691	2691
			(373.80)			428,092	9,800.95						
PGA RESIDENTIAL-	6-0301	23,968	5,525.99	21,389.89	23,968	64,015	765,876.22-	19,564,803	19,564,803	0.129	31.95	18	18
		1,349	21,389.89				(1,556,139.99)	(925,931)		0.0391		816	
PGA RESIDENTIAL-	6-0302	41,932	11,679.47	36,633.90	41,932	686,253	1,320,481.96-	33,739,533	33,739,533	0.170	31.49	16	16
		(6,758)	36,633.90			(31,258)	(2,927,154.09)	(7,842,946)		0.0391		805	
PGA APT OMR-REQ**	6-0326	177	32.44	395.29	177	2,646	2,719.47-	73,740	73,740	0.123	15.18	15	15
		(39)	395.29			(6,364)	(5,455.21)	(12,997)		0.0236		417	
PGA APT OMR-NON REQ**	6-0328	2	11.56-	(327.49)	2	948-	298.77	10,172-	10,172-	0.122	5.78	474	474
		(3)	(327.49)			7,052	383.39	8,584	8,584	0.0294	149.39	5088	5088
PGA GASLIGHT-	6-0531		.00	.00			2,160.10-	70,563	70,563	0.0306			
			.00				(4,172.17)	(140,878)					
PGA GEN SERV COMM-	6-0731	11,976	100,548.53	175,234.31	11,976	2,892,236	3,361,524.74-	50,852,916	50,852,916	0.348	8.40	242	242
		(285)	175,234.31			(456,344)	(6,322,057.82)	(26,312,505)		0.0661	280.69	4246	4246
PGA INTERDEPARTMENTAL-	6-0769	5	97.59	272.72	5	3,575	12,013.59-	199,949	199,949	0.273	19.52	715	715
		(5)	272.72			(2,747)	(22,416.75)	(54,583)		0.0601	2402.72	39990	39990
PGA SMALL INDUSTRIAL-	6-0842	17	3,953.24	3,996.62	17	161,968	66,120.96-	2,496,655	2,496,655	0.244	232.54	9528	9528
		(2)	3,996.62			(3,737)	(141,740.40)	60,609	60,609	0.0265	3889.47	146862	146862
PGA LARGE COMM ON-PEAK-	6-0931	256	36,674.81	41,144.66	256	1,562,642	964,671.72-	32,507,519	32,507,519	0.235	143.26	6104	6104
		2	41,144.66			48,718	(2,226,753.00)	(3,604,919)		0.0297	3768.25	126982	126982
PGA LARGE IND ON-PEAK-	6-0942	28	23,746.56	23,477.40	28	934,543	389,591.76-	14,022,263	14,022,263	0.254	848.09	33377	33377
			23,477.40			(88,975)	(815,698.86)	(627,946)		0.0278	13913.99	500795	500795
PGA INTERDEPARTMENTAL-	6-0969	1	74.69	157.92	1	6,765	7,310.11-	208,258	208,258	0.110	74.69	6765	6765
			157.92			2,860	(15,290.79)	11,448	11,448	0.0351	7310.11	208258	208258
PGA LARGE COMM OFF-PEAK-	6-1031	29	26,465.00	28,775.92	29	918,924	326,324.78-	11,516,312	11,516,312	0.288	912.59	31687	31687
		7	28,775.92			(100,818)	(731,887.85)	(3,346,763)		0.0283	11252.58	397114	397114

[illegible]

RATE SCHEDULE	NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	REV PER CCF SOLD	REVENUE PER BILL	CCF PER BILL
DESCRIPTION	INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	12 MO. END CURRENT	CURRENT MONTH	MO.
PGA LARGE IND OFF-PEAK- 6-1042	11 (110)	26,511.15 30,105.10	920,526 338,162	522,522.47- (1,053,190.99)	12,048,101 1,132,777	.0288 .0434	2410.10 47502.04	83684 1095282
PGA SPECIAL INDUSTRIAL- 6-1242		.00 .00		.00 .00				
PGA SUPPLEMENTAL GAS- 6-1431		.00 .00		.00 .00				
PGA SPECIAL RATE- 6-1531		.00 .00		.00 .00				
PGA LIQUEFIED NATL GAS- 6-1631		.00 .00		.00 .00				
PGA LIQUEFIED NATL GAS- 6-1642		.00 .00		.00 .00				
PGA SPECIAL RATE SEASNL- 6-1743		.00 .00		.00 .00				
PGA G17 EXCESS GAS- 6-2743		.00 .00		.08- 21.93	1 609	.0800		
PGA G-8 INDUS TRANS- 6-3842		.00 .00		.00 .00				
PGA G-9 CCML TRANS- 6-3931		.00 .00		.00 .00				
PGA G-9 INDUS TRANS- 6-3942		.00 .00		.00 .00				
PGA G-10 CCML TRANS- 6-4031		.00 .00		.00 .00				
PGA G-10 INDUS TRANS- 6-4042		.00 .00		.00 .00				
PGA G-12 INDUS TRANS- 6-5242		.00 .00		.00 .00				
PGA OVERALL TOTALS-	266,223 2,995	290,873.44 562,786.23	12,123,037 (74,136)	13,257,317.89- (26,705,417.69)	312,131,705 (56,102,786)	.0240 .0425	1.09 49.80	46 1172

Memphis Light, Gas and Water Division

June 30, 1999

WATER DIVISION

Memphis Light, Gas and Water Division

Water Division Balance Sheet

June 30, 1999

ASSETS

UTILITY PLANT

	<i>June 1999</i>	<i>December 1998</i>
Water Plant in Service	\$285,716,253.63	\$280,278,254.60
Less Depreciation	93,382,359.66	90,224,234.12
Total Plant Net	192,333,893.97	\$190,054,020.48

CONSTRUCTION FUNDS

0.00 0.00

FUNDS AND INVESTMENTS (See Page 26)

38,629,939.38 28,625,476.17

CURRENT AND ACCRUED ASSETS

Cash and Investments-Construction Funds	0.00	0.00
Cash and Investments	27,402,575.21	34,674,600.91
Cash and Securities-Interest Funds	203,160.23	135,372.12
Accrued Interest Receivable on Gov. Securities	0.00	0.00
Accts. Rec. (less allowance for doubtful accts.)	13,999,701.00	13,119,147.14
Materials and Supplies	1,214,886.13	1,363,667.74
Other Current and Accrued Assets	(362.13)	(362.13)
Total Current and Accrued Assets	42,819,960.44	49,292,425.78

DEFERRED DEBITS

Unamortized Debt Discount & Expenses	1,128,697.17	1,137,077.34
Extension Notes Receivable	0.00	0.00
Other Deferred Debits	2,015,401.35	2,015,401.35
Total Deferred Debits	3,144,098.52	3,152,478.69

TOTAL ASSETS

\$276,927,892.31 \$271,124,401.12

Memphis Light, Gas and Water Division

Water Division Balance Sheet

June 30, 1999

LIABILITIES

CAPITALIZATION

June 1999

December 1998

Long Term Debt

Water Revenue Bonds-SEMSUD	\$0.00	\$50,000.00
Water Revenue Refunding Bonds, Series 1989	0.00	0.00
Water Revenue Refunding Bonds, Series 1992	17,335,000.00	17,335,000.00
Water Revenue Bonds, Series 1992A	3,710,000.00	3,710,000.00
Water Revenue Refunding Bonds, Series 1993	26,005,000.00	26,005,000.00
Water Revenue Refunding Bonds, Series 1998	12,575,000.00	12,575,000.00
Deferred Amount on Refunding, Series 1998 (Note B)	(226,626.07)	(226,626.07)
Total Long Term Debt	59,398,373.93	59,448,373.93

RETAINED EARNINGS

Retained Earnings	201,904,213.42	195,422,567.93
Appropriated Retained Earnings - Casualties	4,373,407.13	4,272,589.13
Total Retained Earnings	206,277,620.55	199,695,157.06
Total Capitalization	265,675,994.48	259,143,530.99

CURRENT AND ACCRUED LIABILITIES

Accounts Payable	7,160,410.88	8,082,336.39
Interest Accrued	0.00	1,968.75
Accrued Vacation	1,392,980.38	1,339,931.58
Total Current and Accrued Liabilities	8,553,391.26	9,424,236.72

DEFERRED CREDITS

Customer Advances for Construction	8,730.82	8,730.82
Extension Deposits	0.00	0.00
Total Deferred Credits	8,730.82	8,730.82

RESERVES

Insurance Reserve-Injuries and Damages	1,438,802.59	1,202,966.55
Retirement Payment Based on Unused Sick Leave	1,250,973.16	1,344,936.04
Total Reserves	2,689,775.75	2,547,902.59

TOTAL LIABILITIES

\$276,927,892.31

\$271,124,401.12

Memphis Light, Gas and Water Division

Water Division Statement of Income and Expenses

June 30, 1999

	CURRENT MONTH		12 MONTHS ENDING	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
OPERATING REVENUE				
Sales Revenue	\$5,056,952.53	\$5,066,501.47	\$54,235,676.64	\$51,476,809.74
Forfeited Discounts	58,917.44	59,880.84	812,144.04	801,497.76
Misc. Service Revenue	84,087.88	51,722.03	1,082,738.69	795,120.73
Rent from Property	150,620.88	150,620.88	1,807,450.56	1,807,450.56
Other Revenue	13,334.99	(56,239.87)	53,853.82	(2,479.40)
TOTAL OPERATING REVENUE	\$5,363,913.72	\$5,272,485.35	\$57,991,863.75	\$54,878,399.39
OPERATING EXPENSE				
Production Expense	858,001.47	830,091.05	8,763,813.00	7,992,129.12
Distribution Expense	307,018.58	457,284.43	6,275,683.19	5,651,677.23
Customer Accounts Expense	424,048.56	361,301.53	4,686,168.96	4,185,624.02
Sales Expense	21,995.49	23,816.68	377,021.03	331,696.80
Administrative & General	767,130.69	877,388.81	11,120,124.36	10,915,733.81
Customer Service & Info. Expense	(3,626.85)	21,584.14	322,848.98	268,123.60
Total Operating Expense	2,374,567.94	2,571,466.64	31,545,659.52	29,344,984.58
MAINTENANCE EXPENSE				
Production Expense	101,523.15	117,071.26	1,459,210.57	1,287,396.17
Distribution Expense	299,944.08	464,006.52	2,991,046.67	3,563,009.01
Administrative & General	90,984.18	75,577.74	999,367.91	1,235,922.46
Total Maintenance Expense	492,451.41	656,655.52	5,449,625.15	6,086,327.64
OTHER OPERATING EXPENSE				
Depreciation Expense	534,225.29	544,254.90	6,360,228.48	6,203,903.04
FICA Taxes	9,239.03	8,419.47	117,742.06	96,851.85
Total Other Operating Expense	543,464.32	552,674.37	6,477,970.54	6,300,754.89
TOTAL OPERATING EXPENSE	3,410,483.67	3,780,796.53	43,473,255.21	41,732,067.11
INCOME				
Operating Income	1,953,430.05	1,491,688.82	14,518,608.54	13,146,332.28
Other Income	229,827.38	418,593.31	4,483,777.11	4,974,252.63
Total Income	2,183,257.43	1,910,282.13	19,002,385.65	18,120,584.91
Misc. Income Deduct.-Int. Exp.-Other	0.00	778.00	2,538.00	15,725.00
NET INCOME BEFORE DEBT EXPENSE	2,183,257.43	1,909,504.13	18,999,847.65	18,104,859.91
DEBT EXPENSE				
Amortization of Debt Disc. & Exp.	12,687.95	13,468.50	156,938.70	165,881.52
Interest on Long Term Debt	256,171.00	287,022.75	3,246,985.65	3,597,443.25
Total Debt Expense	268,858.95	300,491.25	3,403,924.35	3,763,324.77
NET INCOME				
Net Income After Debt Expense	\$1,914,398.48	\$1,609,012.88	\$15,595,923.30	\$14,341,535.14
Extraordinary Item	0.00	0.00	0.00	0.00
NET INCOME	\$1,914,398.48	\$1,609,012.88	\$15,595,923.30	\$14,341,535.14

Memphis Light, Gas and Water Division
Water Division
Application of Revenues For 6 Months

June 30, 1999

REVENUES

Operating		\$26,900,257.11
Interest and Other Income		1,715,339.06
Total		<u>28,615,596.17</u>
Less: Operating & Maintenance Expenses		
Production	4,864,205.04	
Operation	10,198,237.12	
Maintenance	<u>2,098,413.54</u>	<u>17,160,855.70</u>

Net Revenues Available for Fund Requirements & Other Purposes

11,454,740.47

FUND REQUIREMENTS

Debt Service	
Sinking Fund Revenue Bonds-Series 1989	0.00
Sinking Fund - SEMSUD Bonds	25,000.00
Sinking Fund Revenue Bonds-Series 1992	1,042,500.00
Sinking Fund Revenue Bonds-Series 1992A	430,002.00
Sinking Fund Revenue Bonds-Series 1993	1,402,500.00
Interest Fund - SEMSUD Bonds	656.25
Interest-Revenue Bonds-Series 1989	0.00
Interest-Revenue Refunding Bonds-Series 1992	500,178.00
Interest-Revenue Refunding Bonds-Series 1992A	98,706.00
Interest-Revenue Refunding Bonds-Series 1993	639,288.00
Interest-Revenue Refunding Bonds-Series 1998	<u>298,854.00</u>
Total Debt Service	<u>4,437,684.25</u>

RENEWAL & REPLACEMENT FUND

Renewal & Replacement Fund Requirements	<u>3,414,338.90</u>	<u>7,852,023.15</u>
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OTHER PURPOSES

Interest Expense-Customer Deposits & Other	0.00
FICA Taxes	<u>62,701.02</u>
	62,701.02

Total Fund Requirements & Other Purposes

7,914,724.17

Balance-After Providing for above Disbursements
and Fund Requirements

3,540,016.30

Less: Capital Additions provided by Current Year's Net Revenue

0.00

REMAINDER - To (or From) Working Capital

\$3,540,016.30

Total Capital Additions were paid from:

Renewal and Replacement Funds	*	\$5,726,566.74
Current Year's Net Revenue		0.00
		<u><u>\$5,726,566.74</u></u>

*Includes \$1,347,037.94 to be transferred from the R&R Fund

1999 CONSTRUCTION BUDGET

\$28,355,000

TOTAL CONSTRUCTION FUNDS EXPENDED

\$5,726,567

TOTAL CONSTRUCTION FUNDS EXPENDED - Current Month

\$1,347,038

Memphis Light, Gas and Water Division

Water Division Operating Statement and Statistics

June 30, 1999

	CURRENT MONTH	INCREASE OVER LAST YEAR	12 MONTHS ENDING	INCREASE OVER LAST YEAR
OPERATING REVENUES				
Residential	\$2,632,272.67	(\$63,896.02)	\$27,216,903.72	\$1,620,359.63
Commercial-General Service	\$2,060,472.29	\$52,936.62	\$22,163,154.39	\$664,836.61
Resale	\$211,144.52	(\$1,612.66)	\$3,048,431.66	\$480,646.23
Fire Protection	\$144,459.64	(\$1,830.83)	\$1,741,392.33	(\$26,920.40)
Free Water Metered	\$0.00	(\$344.84)	\$20,351.02	\$17,197.14
Interdepartmental	\$3,688.90	\$284.28	\$40,529.04	(\$1,273.90)
Miscellaneous	\$311,875.70	\$105,891.82	\$3,761,101.59	\$358,619.05
Total Operating Revenue	\$5,363,913.72	\$91,428.37	\$57,991,863.75	\$3,113,464.36

OPERATING EXPENSES				
Production	\$959,524.62	\$12,362.31	\$10,223,023.57	\$943,498.28
Distribution	606,962.66	(314,328.29)	9,266,729.86	52,043.62
Customer Accounts	424,048.56	62,747.03	4,686,168.96	500,544.94
Sales	21,995.49	(1,821.19)	377,021.03	45,324.23
Administrative & General	858,114.87	(94,851.68)	12,119,492.27	(32,164.00)
Customer Service & Information	(3,626.85)	(25,210.99)	322,848.98	54,725.38
Total Operating Expenses	\$2,867,019.35	(\$361,102.81)	\$36,995,284.67	\$1,563,972.45
Net Revenue from Operations	\$2,496,894.37	\$452,531.18	\$20,996,579.08	\$1,549,491.91

	STATISTICS		AVERAGE
Residential	200,546	1,872	199,399
Commercial-General Service	19,353	242	19,268
Resale	5	0	5
Fire Protection	3,724	162	3,624
Government & Municipal (Free)	640	12	640
Interdepartmental	49	0	33
Total Customers	224,317	2,288	222,969

METERED WATER (CCF)				
Residential	2,711,059	(12,466)	27,691,685	1,828,549
Commercial-General Service	3,004,788	190,722	29,998,860	416,545
Resale	248,603	(2,953)	3,614,545	602,829
Fire Protection	0	0	0	0
Government & Municipal (Free)	149,566	71,560	1,516,721	(696,806)
Interdepartmental	4,294	457	46,251	(943)
Total Metered Water	6,118,310	247,320	62,868,062	2,150,174

Average Consumption per Residential Customer	13.52	-0.19	138.88	7.63
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PCR1108

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

14

JUNE 30, 1999

RATE SCHEDULE	DESCRIPTION	NO. BILLS THIS YEAR	CURRENT MONTH				12 MONTHS ENDING CURRENT MONTH				REV PER CCF SOLD	REVENUE PER BILL	CCF PER BILL
			OPERATING REVENUE THIS YEAR		INCREASE OVER LAST YEAR		OPERATING REVENUE THIS YEAR		INCREASE OVER LAST YEAR				
			INC. LAST YEAR	OVER LAST YEAR	INC. LAST YEAR	OVER LAST YEAR	INC. LAST YEAR	OVER LAST YEAR	INC. LAST YEAR	OVER LAST YEAR			
WATER - FREE - PUBLIC (0052)		639 15	W-0052	.00 .00	149,566 71,788	111.34- (111.34)	1,483,435 (727,898)	.0001	.17	234 2321			
WATER - FREE - OTHERS (0031)		1 (3)	W-0031	.00 (344.84)	(228)	20,463.33 16,415.56	33,286 31,092	.6148	20463.33	33286			
WATER METERED- RES. (0100)		181,629 13,126	W-0100	2,208,975.84 93,746.87	2,400,933 102,825	22,652,136.83 2,055,642.07	24,370,237 2,120,800	.9200 .9295	12.16 124.72	13 134			
WATER METERED- RES. (0200)		18,917 (11,254)	W-0200	423,296.83 (157,642.89)	310,126 (115,291)	4,564,764.89 (435,282.44)	3,321,448 (292,251)	.3649 .3743	22.38 241.30	16 176			
WATER METERED- COMM. (0331)		4 (13)	W-0331	.00 (1,655.56)	32 (16,129)	1,041.77 (14,647.78)	4,011 (54,133)	.2597	260.44	1003			
WATER METERED- COMM. (0431)		1 (2)	W-0431	16.50 (8,900.59)	11 (1,692)	1,753.76 (7,163.33)	2,613 (2,410)	.5000 .6712	16.50 1753.76	11 2613			
WATER - FIRE PROT.-CITY (0540)		3,453 391	W-0540	127,208.91 14,454.17		1,436,961.46 80,176.42			36.84 416.15				
WATER - FIRE PROT.-CNTY (0640)		271 (229)	W-0640	17,250.73 (16,285.00)		304,428.87 (107,096.82)			63.66 1123.35				
WATER METERED- COMM. (0731)		18,433 1,007	W-0731	1,618,151.46 100,029.13	2,237,918 121,997	16,564,485.83 1,119,366.70	21,275,077 952,914	.7231 .7786	87.79 898.63	121 1154			
WATER METERED- COMM. (0831)		853 (748)	W-0831	103,971.82 (152,377.17)	79,198 (149,363)	2,277,610.45 (379,235.66)	1,968,597 (287,217)	.3128 .1570	121.89 2670.12	93 2308			

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

JUNE 30, 1999

RATE SCHEDULE		CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH				REV PER CCF SOLD		REVENUE PER BILL		CCF PER BILL	
		NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	12 MO. END	CURRENT MONTH	12 MO. END	CURRENT MONTH	
DESCRIPTION		INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	12 MO. END	CURRENT MONTH	12 MO. END	CURRENT MONTH	
WATER METERED- COMM. (0931)		5	211,144.52 (1,612.66)	248,603 (2,953)	3,048,433.66 480,646.23	3,614,545 602,829	.8493 .8434	42228.90 609686.73	49721 722909				
-ARGE COMMERCIAL - CITY (1031)		62 (2)	338,332.51 115,840.81	687,629 235,909	3,318,176.58 (53,569.32)	6,748,555 (192,616)	.4920 .4917	5456.98 53518.98	11091 108848				
-ARGE COMMERCIAL - CNTY (1131)			.00 .00		86.00 86.00		.2857						
INTERDEPARTMENTAL (0569, 0869, 1069, 1169)		49	3,688.90 284.28	4,294 457	40,530.04 (1,273.90)	46,251 (943)	.8591 .8763	75.28 827.14	88 944				
INDUSTRIAL - CITY (0742)			.00 .00		.00 .00								
MULTIFAMILY DWELL - CITY (0743)			.00 .00		.00 .00								
COMM IRRIGATION - CITY (0744)			.00 .00		.00 .00								
INDUSTRIAL - COUNTY (0842)			.00 .00		.00 .00								
MULTIFAMILY DWELL - CNTY (0843)			.00 .00		.00 .00								
COMM IRRIGATION - COUNTY (0844)			.00 .00		.00 .00								
ARGE INDUSTRIAL - CITY (1042)			.00 .00		.00 .00								

MEMPHIS LIGHT, GAS AND WATER DIVISION
OPERATING REVENUES BY RATE SCHEDULES

JUNE 30, 1999

		CURRENT MONTH		12 MONTHS ENDING CURRENT MONTH											
RATE SCHEDULE		NO. BILLS THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	OPERATING REVENUE THIS YEAR	CCF SOLD THIS YEAR	REVENUE PER CCF SOLD THIS YEAR	REV PER CCF SOLD THIS YEAR	CCF SOLD THIS YEAR	REVENUE PER CCF SOLD THIS YEAR	CCF SOLD THIS YEAR	REVENUE PER CCF SOLD THIS YEAR	CCF SOLD THIS YEAR	REVENUE PER CCF SOLD THIS YEAR	CCF SOLD THIS YEAR
DESCRIPTION		INC. OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR	INCREASE OVER LAST YEAR
-ARGE MULTIFAMILY - CITY W-1043 (1043)			.00	.00		.00		.00		.00		.00		.00	
-ARGE COMM IRRIG - CITY W-1044 (1044)			.00	.00		.00		.00		.00		.00		.00	
-ARGE INDUSTRIAL - CNTY W-1142 (1142)			.00	.00		.00		.00		.00		.00		.00	
-ARGE MULTIFAMILY - CNTY W-1143 (1143)			.00	.00		.00		.00		.00		.00		.00	
-ARGE COMM IRRIG - CNTY W-1144 (1144)			.00	.00		.00		.00		.00		.00		.00	
RESIDENTIAL IRRIG - CITY W-0144 (0144)			.00	.00		.00		.00		.00		.00		.00	
RESIDENTIAL IRRIG - CNTY W-0244 (0244)			.00	.00		.00		.00		.00		.00		.00	
TOTALS		224,317	5,052,038.02	6,118,310	54,230,762.13	6,118,310	54,230,762.13	62,868,062	.8257	22.52	27	241.76	280		
FINALS BILLS INCLUDED		2,288	(14,463.45)	247,320	2,753,952.39	247,320	2,753,952.39	2,150,174	.8626						
() DENOTES RED FIGURE		3,352													

Memphis Light, Gas and Water Division

June 30, 1999

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Memphis Light, Gas and Water Division
Electric Division
Funds and Investments - Schedule of Interest Expense

June 30, 1999

FUNDS AND INVESTMENTS	INVESTMENTS	FUNDS	TOTAL
Insurance Reserve Fund - Casualties		\$10,473,299.94	\$10,473,299.94
Renewal and Replacement Fund		26,398,136.00	26,398,136.00
Insurance, Injuries and Damages Fund		3,899,389.55	3,899,389.55
TVA Back-billing Reserve Fund		0.00	0.00
Electric Series Master Bond Reserve Fund	9,931,823.25	11,013,172.62	20,944,995.87
Sinking Fund - Revenue Bonds - Series 1989		0.00	0.00
Sinking Fund - Revenue Bonds - Series 1991		1,470,609.94	1,470,609.94
Sinking Fund - Refunding Bonds - Series 1992		6,164,062.58	6,164,062.58
Sinking Fund - Refunding Bonds - Series 1992A		4,213,265.91	4,213,265.91
Sinking Fund - Refunding Bonds - Series 1993		376,976.00	376,976.00
Change in Fair Value of Investments		0.00	0.00
TOTAL FUNDS AND INVESTMENTS	\$9,931,823.25	\$64,008,912.54	\$73,940,735.79

SCHEDULE OF INTEREST EXPENSE	OTHER	CURRENT MONTH LONG TERM DEBT	12 MONTHS ENDING
Amortization of Debt Discount & Expense	\$27,351.22		356,609.28
Interest Expense - Series 1986		0.00	0.00
Interest Expense - Series 1989		0.00	0.00
Interest Expense - Series 1991		15,707.00	275,736.00
Interest Expense - Series 1992		430,228.00	5,472,522.00
Interest Expense - Series 1992A		45,988.00	675,234.00
Interest Expense - Series 1993		212,003.00	2,558,448.00
TOTAL DEBT EXPENSE	\$27,351.22	\$703,926.00	\$9,338,549.28

OTHER INTEREST EXPENSE

Interest on Customer Deposits	\$0.00	\$9,038.00
Other Interest Expense	0.00	0.00
TOTAL OTHER INTEREST EXPENSE	\$0.00	\$9,038.00

Memphis Light, Gas and Water Division
Gas Division
Funds and Investments - Schedule of Interest Expense

June 30, 1999

FUNDS AND INVESTMENTS	INVESTMENTS	FUNDS	TOTAL
Insurance Reserve Fund - Casualties		\$4,018,090.53	\$4,018,090.53
Renewal and Replacement Fund		32,982,198.08	32,982,198.08
Insurance, Injuries and Damages Fund		1,602,459.39	1,602,459.39
Gas Series Master Bond Reserve Fund	0.00	0.00	0.00
Reserve Fund - No Notice Service		2,663,656.76	2,663,656.76
Medical Benefit Fund (includes salary continuation)	\$10,066,955.60	1,056,273.43	11,123,229.03
TOTAL FUNDS AND INVESTMENTS	\$10,066,955.60	\$42,322,678.19	\$52,389,633.79

SCHEDULE OF INTEREST EXPENSE	CURRENT MONTH OTHER	LONG TERM DEBT	12 MONTHS ENDING
Amortization of Debt Discount & Expense	\$0.00		\$0.00
Interest on Long Term Debt	0.00		0.00
TOTAL DEBT EXPENSE	\$0.00	\$0.00	\$0.00

OTHER INTEREST EXPENSE		
Interest on Customer Deposits	\$0.00	\$4,281.00
Other Interest Expense	0.00	\$0.00
TOTAL OTHER INTEREST EXPENSE	\$0.00	\$4,281.00

Memphis Light, Gas and Water Division
Water Division
Funds and Investments - Schedule of Interest Expense

June 30, 1999

FUNDS AND INVESTMENTS	INVESTMENTS	FUNDS	TOTAL
Sinking and Interest Fund - SEMSUD Bonds		83.78	83.78
Renewal and Replacement Fund		20,807,792.27	20,807,792.27
Insurance, Injuries and Damages Fund		1,438,802.59	1,438,802.59
Insurance Reserve Fund - Casualties		4,373,407.13	4,373,407.13
Water Series Master Bond Reserve Fund	\$0.00	9,100,834.90	9,100,834.90
Sinking Fund - Revenue Bonds - Series 1989		5,990.64	5,990.64
Sinking Fund - Refunding Bonds - Series 1992		1,044,544.20	1,044,544.20
Sinking Fund - Refunding Bonds - Series 1992A		429,625.91	429,625.91
Sinking Fund - Refunding Bonds - Series 1993		1,396,277.54	1,396,277.54
Sinking Fund - Refunding Bonds - Series 1998		32,580.42	32,580.42
TOTAL FUNDS AND INVESTMENTS	\$0.00	\$38,629,939.38	\$38,629,939.38

SCHEDULE OF INTEREST EXPENSE	OTHER	CURRENT MONTH	
		LONG TERM DEBT	12 MONTHS ENDING
Amortization of Debt Discount & Expense	\$12,687.95		\$156,938.70
Interest Expense - SEMSUD Bonds		0.00	1,866.75
Interest Expense - Series 1986		0.00	72.00
Interest Expense - Series 1989		0.00	35,532.00
Interest Expense - Series 1992		83,363.00	1,053,096.00
Interest Expense - Series 1992A		16,451.00	543,570.90
Interest Expense - Series 1993		106,548.00	1,313,994.00
Interest Expense - Series 1998		49,809.00	298,854.00
TOTAL DEBT EXPENSE	\$12,687.95	\$256,171.00	\$3,403,924.35

OTHER INTEREST EXPENSE

Interest on Customer Deposits	\$0.00	\$2,538.00
Other Interest Expense	0.00	0.00
TOTAL OTHER INTEREST EXPENSE	\$0.00	\$2,538.00

Memphis Light, Gas and Water Division

Notes to Financial Statements

June 30, 1999

NOTE A - Long Term Notes Receivable consists of a \$1.3 million fully collateralized note from a private developer for the costs incurred in relocating transmission lines.

NOTE B - In December 1998, the Water Division issued \$12,575,000 in Revenue Bonds to refund portions of the Series 1992A Bonds. Per GASB Regulation No. 31, the savings created from this refunding is a reduction of Long Term Debt on the Balance Sheet of the Water Division.

Memphis Light, Gas and Water Division

June 30, 1999

**COMPARISONS TO BUDGET
AND
OPERATING EXPENSE SECTION**

Memphis Light, Gas and Water Division

Electric Division Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED POWER</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>
JAN	61,148	65,845	47,383	51,068	9,352	9,006	56,735	60,074	4,413	5,771
FEB	58,905	54,437	45,488	42,376	10,282	10,359	55,770	52,735	3,135	1,702
MAR	53,386	55,451	41,186	42,611	11,232	10,989	52,418	53,600	968	1,851
APR	50,565	56,357	38,762	44,063	11,382	11,040	50,144	55,103	421	1,254
MAY	56,433	61,971	43,761	48,572	10,614	10,611	54,375	59,183	2,058	2,788
JUN	72,842	77,095	57,111	60,774	10,727	11,336	67,838	72,110	5,004	4,985
JUL	85,371		66,838		10,434		77,272		8,099	
AUG	85,270		66,519		10,802		77,321		7,949	
SEP	75,504		59,437		11,292		70,729		4,775	
OCT	57,077		43,871		12,023		55,894		1,183	
NOV	51,333		39,208		11,506		50,714		619	
DEC	56,507		44,077		15,909		59,986		(3,479)	
	<u>764,341</u>	<u>371,156</u>	<u>593,641</u>	<u>289,464</u>	<u>135,555</u>	<u>63,341</u>	<u>729,196</u>	<u>352,805</u>	<u>35,145</u>	<u>18,351</u>

Cumulative Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED POWER</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>
JAN	61,148	65,845	47,383	51,068	9,352	9,006	56,735	60,074	4,413	5,771
FEB	120,053	120,282	92,871	93,444	19,634	19,365	112,505	112,809	7,548	7,473
MAR	173,439	175,733	134,057	136,055	30,866	30,354	164,923	166,409	8,516	9,324
APR	224,004	232,090	172,819	180,118	42,248	41,394	215,067	221,512	8,937	10,578
MAY	280,437	294,061	216,580	228,690	52,862	52,005	269,442	280,695	10,995	13,366
JUN	353,279	371,156	273,691	289,464	63,589	63,341	337,280	352,805	15,999	18,351
JUL	438,650		340,529		74,023		414,552		24,098	
AUG	523,920		407,048		84,825		491,873		32,047	
SEP	599,424		466,485		96,117		562,602		36,822	
OCT	656,501		510,356		108,140		618,496		38,005	
NOV	707,834		549,564		119,646		669,210		38,624	
DEC	764,341		593,641		135,555		729,196		35,145	

Memphis Light, Gas and Water Division

Electric Division

Monthly Comparisons 1998 vs 1999

SALES MWH

	1998 ACTUAL	1999 BUDGET	1999 ACTUAL	% CHANGE	
				1999 vs1998	1999 ACTvsBUD
JAN	1,031,664	1,053,133	1,111,666	7.8%	5.6%
FEB	947,220	1,018,872	930,803	-1.7%	-8.6%
MAR	897,798	917,240	928,277	3.4%	1.2%
APR	1,000,635	871,525	957,280	-4.3%	9.8%
MAY	944,573	969,282	1,032,736	9.3%	6.5%
JUN	1,399,537	1,253,283	1,310,008	-6.4%	4.5%
JUL	1,594,227	1,446,100			
AUG	1,448,035	1,434,837			
SEPT	1,452,692	1,301,383			
OCT	1,218,288	972,201			
NOV	933,097	883,712			
DEC	1,001,290	982,412			
Total	13,869,056	13,103,980	6,270,770		
Total YTD	6,221,427	6,083,335	6,270,770	0.8%	3.1%

ENERGY PURCHASED MWH

	1998 ACTUAL	1999 ACTUAL	% CHANGE	
			1999 vs1998	
JAN	1,001,056	1,111,666	11.0%	
FEB	886,153	930,803	5.0%	
MAR	992,494	985,586	-0.7%	
APR	921,741	1,012,482	9.8%	
MAY	1,264,172	1,162,494	-8.0%	
JUN	1,567,081	1,433,413	-8.5%	
JUL	1,630,941			
AUG	1,555,658			
SEPT	1,426,359			
OCT	1,056,092			
NOV	901,529			
DEC	1,045,247			
Total	14,248,523	6,636,444		
Total YTD	6,632,697	6,636,444	0.1%	

DEMAND MW

LOAD FACTOR

LOSS FACTOR

	1998 ACTUAL	1999 ACTUAL	% CHANGE 1999 vs1998	1998 ACTUAL	1999 ACTUAL	1998 ACTUAL	1999 ACTUAL
JAN	1,771.5	1,995.0	12.6%	0.760	0.749	-0.0306	0.0000
FEB	1,656.4	1,646.0	-0.6%	0.796	0.842	-0.0689	0.0000
MAR	1,805.4	1,637.3	-9.3%	0.739	0.638	0.0954	0.0581
APR	1,733.5	2,202.8	27.1%	0.738	0.638	-0.0856	0.0545
MAY	2,657.7	2,375.8	-10.6%	0.639	0.658	0.2528	0.1116
JUN	3,029.6	2,810.1	-7.2%	0.718	0.709	0.1069	0.0861
JUL	3,120.4			0.703		0.0225	
AUG	3,017.2			0.693		0.0692	
SEPT	2,793.8			0.709		-0.0185	
OCT	2,220.4			0.639		-0.1536	
NOV	1,574.5			0.795		0.0350	
DEC	1,878.7			0.748		-0.0421	
Max Demand	3,120.4	2,810.1					

Memphis Light, Gas and Water Division

Gas Division Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED GAS</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>
JAN	38,988	39,784	25,771	20,737	4,237	4,111	30,008	24,848	8,980	14,936
FEB	36,317	23,235	22,515	11,755	4,100	4,499	26,615	16,254	9,702	6,981
MAR	26,050	22,194	16,267	14,587	4,828	4,940	21,095	19,527	4,955	2,667
APR	14,442	14,846	8,819	4,991	4,614	4,676	13,433	9,667	1,009	5,179
MAY	9,087	8,742	5,289	4,444	9,354	4,340	14,643	8,784	(5,556)	(42)
JUN	8,692	9,311	5,185	6,202	4,155	4,532	9,340	10,734	(648)	(1,423)
JUL	8,910		5,181		3,612		8,793		117	
AUG	9,085		5,233		4,247		9,480		(395)	
SEP	9,184		5,215		4,014		9,229		(45)	
OCT	9,181		6,691		4,789		11,480		(2,299)	
NOV	16,014		11,936		4,391		16,327		(313)	
DEC	29,406		20,680		6,488		27,168		2,238	
	<u>215,356</u>	<u>118,112</u>	<u>138,782</u>	<u>62,716</u>	<u>58,829</u>	<u>27,098</u>	<u>197,611</u>	<u>89,814</u>	<u>17,745</u>	<u>28,298</u>

Cumulative Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED GAS</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>BUDGET</i>	<i>ACTUAL</i>
JAN	38,988	39,784	25,771	20,737	4,237	4,111	30,008	24,848	8,980	14,936
FEB	75,305	63,019	48,286	32,492	8,337	8,610	56,623	41,102	18,682	21,917
MAR	101,355	85,213	64,553	47,079	13,165	13,550	77,718	60,629	23,637	24,584
APR	115,797	100,059	73,372	52,070	17,779	18,226	91,151	70,296	24,646	29,763
MAY	124,884	108,801	78,661	56,514	27,133	22,566	105,794	79,080	19,090	29,721
JUN	133,576	118,112	83,846	62,716	31,288	27,098	115,134	89,814	18,442	28,298
JUL	142,486		89,027		34,900		123,927		18,559	
AUG	151,571		94,260		39,147		133,407		18,164	
SEP	160,755		99,475		43,161		142,636		18,119	
OCT	169,936		106,166		47,950		154,116		15,820	
NOV	185,950		118,102		52,341		170,443		15,507	
DEC	215,356		138,782		58,829		197,611		17,745	

Memphis Light, Gas and Water Division

Gas Division

Monthly Comparisons 1998 vs 1999

TOTAL SYSTEM SALES (1)

GAS SALES (2)

	1998 ACTUAL	1999 BUDGET	1999 ACTUAL	% CHANGE		1998 ACTUAL	1999 BUDGET	1999 ACTUAL	% CHANGE	
				1999 vs1998	1999 ACTvsBUD				1999 vs1998	1999 ACT vs BU
JAN	9,577	10,489	11,298	18.0%	7.7%	6,826	7,788	8,398	23.0%	7.8%
FEB	9,088	9,347	7,480	-17.7%	-20.0%	6,398	6,907	4,849	-24.2%	-29.8%
MAR	7,580	7,522	6,624	-12.6%	-11.9%	5,255	4,827	5,200	-1.0%	7.7%
APR	5,726	5,035	5,858	2.3%	16.3%	3,132	2,603	3,355	7.1%	28.9%
MAY	4,165	4,189	4,361	4.7%	4.1%	1,935	1,603	1,587	-18.0%	-1.0%
JUN	4,190	4,096	4,021	-4.0%	-1.8%	1,472	1,570	1,536	4.3%	-2.2%
JUL	4,863	4,858				1,399	1,559			
AUG	5,133	4,416				1,303	1,579			
SEPT	5,035	4,332				1,436	1,580			
OCT	5,971	4,231				1,422	1,635			
NOV	5,267	5,590				2,677	3,214			
DEC	6,631	8,616				4,240	6,096			
Total	73,226	72,721	39,642			37,495	40,961	24,925		
Total YTD	40,326	40,678	39,642	-1.7%	-2.5%	25,018	25,298	24,925	-0.4%	-1.5%

(1) Total of Rates G,S, & T

(2) Total of Rates G & S

TRANSPORT GAS SALES

TOTAL SYSTEM PURCHASES

	1998 ACTUAL	1999 BUDGET	1999 ACTUAL	% CHANGE		1998 ACTUAL	1999 BUDGET	1999 ACTUAL	% CHANGE	
				1999 vs1998	1999 ACTvsBUD				1999 vs1998	1999 ACT vs BU
JAN	2,751	2,702	2,900	5.4%	7.3%	6,518	8,232	7,201	10.5%	-12.5%
FEB	2,690	2,439	2,631	-2.2%	7.9%	5,296	7,301	4,662	-12.0%	-36.1%
MAR	2,325	2,695	1,424	-38.8%	-47.2%	5,127	5,102	5,552	8.3%	8.8%
APR	2,594	2,432	2,503	-3.5%	2.9%	2,185	2,752	2,238	2.4%	-18.7%
MAY	2,230	2,586	2,774	24.4%	7.3%	1,556	1,694	1,741	11.9%	2.8%
JUN	2,718	2,526	2,485	-8.6%	-1.6%	1,437	1,660	1,587	10.4%	-4.4%
JUL	3,464	3,299				1,438	1,648			
AUG	3,830	2,836				1,540	1,669			
SEPT	3,599	2,752				1,539	1,670			
OCT	4,549	2,595				2,139	1,728			
NOV	2,590	2,376				3,538	3,397			
DEC	2,391	2,520				6,786	6,444			
Total	35,731	31,758	14,717			39,099	43,297	22,981		
Total YTD	15,308	15,380	14,717	-3.9%	-4.3%	22,119	26,741	22,981	3.9%	-14.1%

Memphis Light, Gas and Water Division

Water Division Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED FUEL</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
JAN	4,467	4,670	379	444	3,176	2,528	3,555	2,972	912	1,698
FEB	4,288	4,237	376	386	2,946	3,260	3,322	3,646	966	591
MAR	4,199	3,795	370	397	3,490	3,131	3,860	3,528	339	267
APR	4,258	4,550	414	414	3,399	3,100	3,813	3,514	445	1,036
MAY	4,488	4,284	472	441	2,997	2,908	3,469	3,349	1,019	935
JUN	4,679	5,364	588	545	3,415	2,865	4,003	3,410	676	1,954
JUL	5,205		466		3,297		3,763		1,442	
AUG	5,251		437		3,103		3,540		1,711	
SEP	5,330		435		3,249		3,684		1,646	
OCT	4,785		415		3,234		3,649		1,136	
NOV	4,455		400		3,224		3,624		831	
DEC	4,398		373		5,144		5,517		(1,119)	
	55,803	26,900	5,125	2,627	40,674	17,792	45,799	20,419	10,004	6,481

Cumulative Comparisons to Budget

1999	<u>OPERATING REVENUE</u>		<u>PURCHASED FUEL</u>		<u>OTHER EXPENSES</u>		<u>TOTAL EXPENSES</u>		<u>OPERATING INCOME</u>	
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
JAN	4,467	4,670	379	444	3,176	2,528	3,555	2,972	912	1,698
FEB	8,755	8,907	755	830	6,122	5,788	6,877	6,618	1,878	2,289
MAR	12,954	12,702	1,125	1,227	9,612	8,919	10,737	10,146	2,217	2,556
APR	17,212	17,252	1,539	1,641	13,011	12,019	14,550	13,660	2,662	3,592
MAY	21,700	21,536	2,011	2,082	16,008	14,927	18,019	17,009	3,681	4,527
JUN	26,379	26,900	2,599	2,627	19,423	17,792	22,022	20,419	4,357	6,481
JUL	31,584		3,065		22,720		25,785		5,799	
AUG	36,835		3,502		25,823		29,325		7,510	
SEP	42,165		3,937		29,072		33,009		9,156	
OCT	46,950		4,352		32,306		36,658		10,292	
NOV	51,405		4,752		35,530		40,282		11,123	
DEC	55,803		5,125		40,674		45,799		10,004	

Memphis Light, Gas and Water Division
Water Division
Comparisons to Budget

SALES MMCF

	1998 Actual	1999 Budget	1999 Actual	% Change 1999 vs1998	1999 ActvsBud
JAN	484.5	494.6	515.8	6.5%	4.3%
FEB	452.5	475.6	443.7	-1.9%	-6.7%
MAR	500.1	457.7	399.5	-20.1%	-12.7%
APR	387.7	474.8	484.2	24.9%	2.0%
MAY	478.8	493.7	457.4	-4.5%	-7.4%
JUN	587.1	533.5	611.8	4.2%	14.7%
JUL	604.1	588.5			
AUG	588.1	592.0			
SEP	621.3	599.1			
OCT	535.3	521.0			
NOV	514.3	490.4			
DEC	511.3	493.2			
TOTAL	6265.1	6214.1	2912.4		

CUMULATIVE COMPARISONS TO BUDGET

	1998 Actual	1999 Budget	1999 Actual	% Change 1999 vs1998	1999 ActvsBud
JAN	484.5	494.6	515.8	6.5%	4.3%
FEB	937.0	970.2	959.5	2.4%	-1.1%
MAR	1,437.1	1,427.9	1,359.0	-5.4%	-4.8%
APR	1,824.8	1,902.7	1,843.2	1.0%	-3.1%
MAY	2,303.6	2,396.4	2,300.6	-0.1%	-4.0%
JUN	2,890.7	2,929.9	2,912.4	0.8%	-0.6%
JUL	3,494.8	3,518.4			
AUG	4,082.9	4,110.4			
SEP	4,704.2	4,709.5			
OCT	5,239.5	5,230.5			
NOV	5,753.8	5,720.9			
DEC	6,265.1	6,214.1			

REPORT: BUL625

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
JUNE 30, 1999

TOTAL RECORDS READ

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MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
ELECTRIC DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
OPERATING REVENUE				
ELECTRIC SALES REVENUE				
1-400-0100 ELECTRIC SALES REVENUE	76,135,982.61-	81,524,739.94-	366,068,946.04-	360,237,924.48-
1-400-0150 ELECTRIC SALES REVENUE-SUBJECT TO REFUND-	0.00	0.00	0.00	0.00
TOTAL ELECTRIC SALES REVENUE	76,135,982.61-	81,524,739.94-	366,068,946.04-	360,237,924.48-
FORFEITED DISCOUNTS				
1-400-0200 FORFEITED DISCOUNTS	474,556.83-	477,661.98-	2,825,984.01-	2,975,227.14-
TOTAL FORFEITED DISCOUNTS	474,556.83-	477,661.98-	2,825,984.01-	2,975,227.14-
MISC SERVICE REVENUE				
1-400-0300 MISCELLANEOUS SERVICE REVENUE	427,514.29-	466,223.07-	1,786,344.70-	2,491,305.01-
TOTAL MISC SERVICE REVENUE	427,514.29-	466,223.07-	1,786,344.70-	2,491,305.01-
RENT-ELECTRIC PROPERTY				
1-400-0400 RENT FROM ELECTRIC PROPERTY	61,414.73-	61,414.73-	368,488.38-	368,488.38-
TOTAL RENT-ELECTRIC PROPERTY	61,414.73-	61,414.73-	368,488.38-	368,488.38-
OTHER ELECTRIC REVENUE				
1-400-0500 OTHER OPERATING REVENUE	4,866.55	1,009.21	106,634.41-	3,803.46
TOTAL OTHER ELECTRIC REVENUE	4,866.55	1,009.21	106,634.41-	3,803.46
LOAD MANAGEMENT REFUNDS				
1-400-0600 LOAD MANAGEMENT REFUNDS (PEAK SHAVING PRO	0.00	0.00	0.00	0.00
TOTAL LOAD MANAGEMENT REFUNDS	0.00	0.00	0.00	0.00
TOTAL	77,094,601.91-	82,529,030.51-	371,156,397.54-	366,069,141.55-
OPERATING EXPENSES				
OPERATIONS EXPENSE				
POWER COST				
1-401-5550 POWER COST	60,773,738.88	66,334,411.51	289,463,851.38	288,814,759.44
TOTAL POWER COST	60,773,738.88	66,334,411.51	289,463,851.38	288,814,759.44
TRANSMISSION				
1-401-5600 OPERATION SUPERVISION AND ENGINEERING----	50,602.52	69,561.87	537,713.58	499,370.02
1-401-5610 LOAD DISPATCHING-----	23,882.37	28,123.85	136,297.02	134,488.07
1-401-5620 STATION EXPENSES-----	31,764.31	24,761.97	170,070.36	200,374.26
1-401-5630 OVERHEAD TRANSMISSION LINE EXPENSES-----	1,657.05	1,699.06	10,074.52	11,379.53
1-401-5640 UNDERGROUND TRANSMISSION LINE EXPENSES----	1,620.95	1,259.30	7,993.69	8,611.15
1-401-5660 MISCELLANEOUS TRANSMISSION EXPENSES	10,952.65	15,645.38	150,762.71	161,021.15
TOTAL TRANSMISSION	120,479.85	141,051.43	1,012,911.88	1,015,244.18
DISTRIBUTION				
1-401-5800 OPERATION SUPERVISION AND ENGINEERING----	245,366.42	197,671.85	1,399,307.19	1,300,511.29
1-401-5810 LOAD DISPATCHING-----	23,882.42	28,123.95	136,297.21	134,520.72
1-401-5820 STATION EXPENSES-----	71,829.97	43,784.08	341,836.41	318,754.08
1-401-5830 OVERHEAD DISTRIBUTION LINE EXPENSES-----	100,977.00	95,709.18	531,577.67	572,965.98

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
ELECTRIC DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
1-401-5840 UNDERGROUND DISTRIBUTION LINE EXPENSES	132,148.20	69,785.21	686,212.22	326,095.48
1-401-5850 STREET LIGHTING AND SIGNAL SYSTEM EXPENSE	8,115.79	2,416.54	29,636.37	12,416.47
1-401-5860 METER EXPENSES	81,286.28	72,968.69	357,270.63	524,725.70
1-401-5870 SERVICES ON CUSTOMERS' PREMISES	405,155.80	361,048.52	2,560,565.44	2,125,980.50
1-401-5880 MISCELLANEOUS DISTRIBUTION EXPENSES	405,726.74	578,853.19	3,684,324.61	4,257,319.41
1-401-5890 RENTS	0.00	0.00	0.00	0.00
1-401-8888 DUMMY ACCOUNT - O&M BUDGET ADJUSTMENTS	0.00	0.00	0.00	0.00
TOTAL DISTRIBUTION	1,474,488.62	1,450,361.21	9,727,027.75	9,573,289.63
CUSTOMER ACCOUNTS				
1-401-9010 SUPERVISION-CUSTOMER ACCOUNTING AND COLLE	4,647.03	3,943.89	37,972.04	21,962.52
1-401-9020 METER READING EXPENSES	141,509.72	130,355.66	843,529.08	778,114.11
1-401-9030 CUSTOMER RECORDS AND COLLECTION EXPENSES	584,783.50	487,972.82	3,037,712.30	2,986,052.01
1-401-9040 UNCOLLECTIBLE ACCOUNTS	279,263.06	65,999.52	1,340,697.82	100,810.29
TOTAL CUSTOMER ACCOUNTS	1,010,203.31	688,271.89	5,259,911.24	3,886,938.93
SALES				
1-401-9110 SUPERVISION-SALES	0.00	0.00	7.56	0.00
1-401-9120 DEMONSTRATING AND SELLING EXPENSES	2,138.48	1,303.76	12,185.60	9,453.81
1-401-9130 ADVERTISING EXPENSES	193.72	132.78	1,059.57	895.54
1-401-9160 MISCELLANEOUS SALES EXPENSES	47,120.70	49,605.36	351,817.42	362,307.28
TOTAL SALES	49,452.90	51,041.90	365,070.15	372,656.63
ADMINISTRATIVE & GENERAL				
1-401-9200 ADMINISTRATIVE AND GENERAL SALARIES	515,845.51	532,716.64	3,312,533.47	3,313,891.96
1-401-9210 OFFICE SUPPLIES AND EXPENSES	93,570.77	120,898.84	623,842.24	644,069.24
1-401-9220 ADMINISTRATIVE EXPENSES-TRANSFERRED-CREDI	61,495.27	72,461.08	532,102.50	603,366.96
1-401-9230 OUTSIDE SERVICES EMPLOYED	94,380.04	41,004.12	373,089.25	247,707.00
1-401-9240 PROPERTY INSURANCE	30,356.31	18,780.45	192,765.64	165,928.13
1-401-9250 INJURIES AND DAMAGES	201,071.04	130,686.49	1,188,438.03	730,521.05
1-401-9260 EMPLOYEE PENSIONS AND BENEFITS	798,823.05	1,032,517.48	4,562,729.47	6,450,574.19
1-401-9300 MISCELLANEOUS GENERAL EXPENSES	471,544.21	349,201.28	1,806,788.08	1,608,572.78
1-401-9310 RENTS-MISCELLANEOUS	213,018.70	213,018.70	1,277,545.68	1,278,661.68
TOTAL ADMINISTRATIVE & GENERAL	2,357,114.36	2,366,362.92	12,805,629.36	13,836,559.07
CUSTOMER SERVICE & INFO				
1-401-9070 SUPERVISION-CUSTOMER SERVICE AND INFORMAT	7,652.25	9,437.61	53,607.34	51,774.18
1-401-9080 CUSTOMER ASSISTANCE EXPENSES	18,510.28	22,038.04	89,434.78	139,043.88
1-401-9090 INFORMATIONAL AND INSTRUCTIONAL ADVERTISI	9,662.03	5,363.61	43,355.96	31,142.58
1-401-9100 MISCELLANEOUS CUSTOMER SERVICE AND INFORM	21,428.67	17,687.00	131,612.04	112,949.64
TOTAL CUSTOMER SERVICE & INFO	20,232.67	54,526.26	318,010.12	334,910.28
TOTAL OPERATIONS EXPENSE	65,805,710.59	71,086,027.12	318,952,411.88	317,834,358.16
MAINTENANCE EXPENSE				
TRANSMISSION				
1-402-5680 MAINTENANCE SUPERVISION AND ENGINEERING--	22,716.10	22,944.66	178,326.02	163,969.39
1-402-5690 MAINTENANCE OF STRUCTURES & IMPROVEMENTS--	0.00	0.00	0.00	0.00
1-402-5700 MAINTENANCE OF STATION EQUIPMENT	52,058.11	32,533.27	203,679.17	209,219.16
1-402-5710 MAINTENANCE OF OVERHEAD TRANSMISSION LINE	30,030.68	19,414.59	45,908.27	9,592.83
1-402-5720 MAINTENANCE OF UNDERGROUND TRANSMISSION L	845.75	542.00	4,611.56	5,487.62

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
ELECTRIC DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
TOTAL TRANSMISSION	105,650.64	75,434.52	432,525.02	388,269.00
DISTRIBUTION				
1-402-5900 MAINTENANCE SUPERVISION AND ENGINEERING--	114,895.52	113,079.11	798,793.91	705,468.94
1-402-5910 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	302.95	1,426.24	2,915.51	14,972.79
1-402-5920 MAINTENANCE OF STATION EQUIPMENT	141,753.55	62,833.14	353,789.25	330,808.27
1-402-5930 MAINTENANCE OF OVERHEAD DISTRIBUTION LINE	1,209,443.65	1,358,613.25	4,864,483.31	5,890,184.92
1-402-5940 MAINTENANCE OF UNDERGROUND DISTRIBUTION L	423,731.37	363,738.41	2,040,303.30	1,797,991.35
1-402-5950 MAINTENANCE OF LINE TRANSFORMERS	79,023.44	170,329.40	487,221.28	559,779.48
1-402-5960 MAINTENANCE OF STREET LIGHTING AND SIGNAL	204,588.99	133,969.67	1,070,642.78	823,463.33
1-402-5970 MAINTENANCE OF METERS	47,841.74	44,480.40	247,725.45	219,463.63
1-402-5980 MAINTENANCE OF MISCELLANEOUS DISTRIBUTION	19,863.47	58,721.02	142,254.95	447,832.45
TOTAL DISTRIBUTION	2,241,444.68	2,307,190.64	10,008,129.74	10,789,965.16
ADMINISTRATIVE & GENERAL				
1-402-9320 MAINTENANCE OF GENERAL PLANT	314,787.21	264,730.70	1,568,391.52	1,369,082.37
TOTAL ADMINISTRATIVE & GENERAL	314,787.21	264,730.70	1,568,391.52	1,369,082.37
TOTAL MAINTENANCE EXPENSE	2,661,882.53	2,647,355.86	12,009,046.28	12,547,316.53
OTHER OPERATING EXPENSE				
DEPRECIATION				
1-403-0001 DEPRECIATION EXPENSE	1,975,162.87	1,900,417.49	11,785,601.22	11,337,380.74
TOTAL DEPRECIATION	1,975,162.87	1,900,417.49	11,785,601.22	11,337,380.74
AMORTIZATION OF R.I.S.E.				
1-405-0300 AMORTIZATION OF R.I.S.E. DEVELOPMENT COST	0.00	0.00	0.00	0.00
TOTAL AMORTIZATION OF R.I.S.E.	0.00	0.00	0.00	0.00
PAYMENT IN LIEU OF TAXES				
1-408-0100 TAXES-OTHER THAN INCOME TAXES	1,634,467.50	1,675,582.00	9,836,341.65	10,062,746.53
TOTAL PAYMENT IN LIEU OF TAXES	1,634,467.50	1,675,582.00	9,836,341.65	10,062,746.53
FICA TAXES				
1-408-1000 TAXES-FICA	32,914.05	29,994.35	221,793.79	179,765.89
TOTAL FICA TAXES	32,914.05	29,994.35	221,793.79	179,765.89
TOTAL OTHER OPERATING EXPENSE	3,642,544.42	3,605,993.84	21,843,736.66	21,579,893.16
TOTAL OPERATING EXPENSES	72,110,137.54	77,339,376.82	352,805,194.82	351,961,567.85
TOTAL	4,984,464.37	5,189,653.69	18,351,202.72	14,107,573.70
OTHER INCOME				
1-415-0100 REVENUES FROM MERCHANDISING, JOBBING, AND	0.00	0.00	0.00	0.00
1-416-0100 COSTS AND EXPENSES OF MERCHANDISING, JOBB	0.00	0.00	0.00	0.00
1-419-1000 INTEREST INCOME FROM SINKING AND OTHER FU	408,590.29	575,402.56	2,800,818.76	3,372,069.59
1-421-0100 MISCELLANEOUS NON-OPERATING INCOME	112,450.70	66,263.16	850,703.99	250,005.56
1-421-0200 MISCELLANEOUS NON-OPERATING INCOME - FEDER	0.00	0.00	0.00	0.00
1-421-0300 MISCELLANEOUS NON-OPERATING INCOME - TVA	1,612,202.00	1,555,872.00	9,673,212.00	9,335,232.00
TOTAL OTHER INCOME	2,133,242.99	2,197,537.72	13,324,734.75	12,957,307.15
TOTAL	7,117,707.36	7,387,191.41	31,675,937.47	27,064,880.85
INTEREST EXPENSE OTHER				

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
ELECTRIC DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
1-431-0100 INTEREST EXPENSE-OTHER	0.00	0.00	0.00	0.00
1-431-0300 INTEREST EXPENSE-CUSTOMER DEPOSITS	0.00	2,773.00	0.00	21,856.00
TOTAL INTEREST EXPENSE OTHER	0.00	2,773.00	0.00	21,856.00
TOTAL	7,117,707.36	7,384,418.41	31,675,937.47	27,043,024.85
DEBT EXPENSE				
INT EXP-LONG TERM DEBT				
1-427-7600 INTEREST ON LONG TERM DEBT-SERIES 1976-RE	0.00	0.00	0.00	0.00
1-427-8310 INTEREST ON LONG TERM DEBT-SERIES 1983A-R	0.00	0.00	0.00	0.00
1-427-8320 INTEREST ON LONG TERM DEBT-SERIES 1983B-R	0.00	0.00	0.00	0.00
1-427-8400 INTEREST ON LONG TERM DEBT-SERIES 1984-RE	0.00	0.00	0.00	0.00
1-427-8600 INTEREST ON LONG TERM DEBT-SERIES 1986-RE	0.00	0.00	0.00	0.00
1-427-8900 INTEREST ON LONG TERM DEBT-SERIES 1989-RE	0.00	0.00	0.00	0.00
1-427-9100 INTEREST ON LONG TERM DEBT - REVENUE BOND	15,707.00	30,249.00	94,242.00	181,494.00
1-427-9200 INTEREST ON LONG TERM DEBT - REVENUE BOND	430,228.00	481,859.00	2,581,368.00	2,891,154.00
1-427-9210 INTEREST ON LONG TERM DEBT-SERIES 1992-A-	45,988.00	66,551.00	275,928.00	399,306.00
1-427-9300 INTEREST ON LONG TERM DEBT-REVENUE REFUND	212,003.00	214,405.00	1,272,018.00	1,286,430.00
TOTAL INT EXP-LONG TERM DEBT	703,926.00	793,064.00	4,223,556.00	4,758,384.00
AMORT-DEBT DISC & EXP				
1-428-0500 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-B	0.00	0.00	0.00	0.00
1-428-8310 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-S	0.00	0.00	0.00	0.00
1-428-8320 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-S	0.00	0.00	0.00	0.00
1-428-8400 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-S	0.00	0.00	0.00	0.00
1-428-8600 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-S	0.00	0.00	0.00	0.00
1-428-8900 AMORTIZATION OF DEBT DISCOUNT & EXPENSE-S	0.00	0.00	0.00	0.00
1-428-9100 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	1,432.14	2,764.00	8,592.84	16,584.00
1-428-9200 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	15,855.50	17,766.00	95,133.00	106,596.00
1-428-9210 AMORTIZATION OF DEBT DISC & EXP-SERIES 19	3,148.83	4,558.58	18,892.98	27,351.48
1-428-9300 AMORTIZATION OF DEBT DISCOUNT & EXPENSE -	6,914.75	6,995.08	41,488.50	41,970.48
TOTAL AMORT-DEBT DISC & EXP	27,351.22	32,083.66	164,107.32	192,501.96
INT EXP-COMMERCIAL PAPER				
TOTAL INT EXP-COMMERCIAL PAPER	0.00	0.00	0.00	0.00
INT EXP-BOND ANT'N NOTES				
1-427-0500 INTEREST ON BOND ANTICIPATION NOTES-SERIE	0.00	0.00	0.00	0.00
TOTAL INT EXP-BOND ANT'N NOTES	0.00	0.00	0.00	0.00
TOTAL DEBT EXPENSE	731,277.22	825,147.66	4,387,663.32	4,950,885.96
TOTAL OPERATING REVENUE	6,386,430.14	6,559,270.75	27,288,274.15	22,092,138.89

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
GAS DIVISION
JUNE 30, 1999

DESCRIPTION	THIS YEAR	CURRENT MONTH LAST YEAR	THIS YEAR	YEAR TO DATE LAST YEAR
OPERATING REVENUE				
GAS SALES REVENUE				
2-400-0100 GAS SALES REVENUE	8,339,989.86	7,600,966.05	105,634,135.97	124,738,223.77
TOTAL GAS SALES REVENUE	8,339,989.86	7,600,966.05	105,634,135.97	124,738,223.77
FORFEITED DISCOUNTS				
2-400-0200 FORFEITED DISCOUNTS	83,239.93	98,479.11	1,388,567.12	1,984,075.00
TOTAL FORFEITED DISCOUNTS	83,239.93	98,479.11	1,388,567.12	1,984,075.00
MISC SERVICE REVENUE				
2-400-0300 MISCELLANEOUS SERVICE REVENUE	149,050.36	149,386.39	5,079,302.03	365,202.27
2-400-0500 OTHER GAS REVENUE	2,665.39	3,262.64	18,377.19	17,915.68
TOTAL MISC SERVICE REVENUE	151,715.75	146,123.75	5,097,679.22	383,117.95
RENT FROM GAS PROPERTY				
2-400-0400 RENT FROM GAS PROPERTY	131,168.81	131,168.81	787,012.86	787,012.86
TOTAL RENT FROM GAS PROPERTY	131,168.81	131,168.81	787,012.86	787,012.86
INCREMENTAL GAS TRANSFER				
2-400-0600 INCREMENTAL GAS TRANSFERRED	0.00	0.00	0.00	0.00
TOTAL INCREMENTAL GAS TRANSFER	0.00	0.00	0.00	0.00
INCREMENTAL GAS AMORT'D				
2-400-0700 INCREMENTAL GAS AMORTIZED	0.00	0.00	0.00	0.00
TOTAL INCREMENTAL GAS AMORT'D	0.00	0.00	0.00	0.00
TRANSPORTED GAS				
2-400-0800 TRANSPORTED GAS	605,242.05	705,429.82	5,204,498.92	3,873,556.39
TOTAL TRANSPORTED GAS	605,242.05	705,429.82	5,204,498.92	3,873,556.39
TOTAL OPERATING REVENUE	9,311,356.40	8,389,920.04	118,111,894.09	131,765,985.97
OPERATING EXPENSES				
OPERATIONS EXPENSE				
PRODUCTION				
2-401-7700 OPERATION SUPERVISION AND ENGINEERING	0.00	0.00	0.00	0.00
2-401-7710 OPERATION LABOR	0.00	0.00	0.00	0.00
2-401-7730 FUEL GAS	187,584.75	26,934.79	372,388.43	179,979.85
2-401-7740 POWER	0.00	0.00	0.00	0.00
2-401-7750 MATERIALS	0.00	0.00	0.00	0.00
2-401-7760 OPERATIONS	175.44	117.56	1,014.43	1,548.25
2-401-7830 RENTS	0.00	0.00	0.00	0.00
2-401-8070 OTHER EXPENSES-PURCHASED GAS	0.00	0.00	0.00	0.00
2-401-8400 OPERATION SUPERVISION AND ENGINEERING	4,083.89	4,224.55	23,881.35	22,018.43
2-401-8410 OPERATION LABOR AND EXPENSES	69,192.89	35,130.01	509,175.71	344,085.09
TOTAL PRODUCTION	261,036.97	66,406.91	906,459.92	547,631.62
GAS COSTS				

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
GAS DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
2-401-8040 NATURAL GAS-CITY GATE PURCHASES	6,202,303.01	3,834,821.02	62,716,799.45	77,883,902.89
2-401-8050 PURCHASED GAS COST ADJUSTMENT	0.00	0.00	0.00	0.00
TOTAL GAS COSTS	6,202,303.01	3,834,821.02	62,716,799.45	77,883,902.89
DISTRIBUTION EXPENSE				
2-401-8700 SUPERVISION AND ENGINEERING-----				
2-401-8710 DISTRIBUTION LOAD DISPATCHING EXPENSE	103,574.08	123,257.36	894,150.56	805,358.05
2-401-8740 MAINS AND SERVICES	28,547.60	30,343.83	169,576.79	160,668.50
2-401-8750 MEASURING AND REGULATING EXPENSES-GENERAL	178,020.82	132,259.16	877,109.77	741,532.61
2-401-8760 MEASURING AND REGULATING EXPENSES-INDUSTR	22,229.37	17,921.99	125,363.54	122,002.09
2-401-8770 MEASURING AND REGULATING EXPENSES-CHECK S	149.76	513.15	356.22	918.15
2-401-8780 METER AND HOUSE REGULATOR EXPENSES	197.57	216.74	1,173.92	1,188.14
2-401-8790 CUSTOMER INSTALLATION EXPENSES	72,476.65	78,572.97	529,054.21	533,208.60
2-401-8800 OTHER EXPENSES	368,009.44	313,935.82	2,330,571.82	1,890,353.05
2-401-8810 RENTS-----	81,852.31	178,488.00	1,568,001.64	1,472,296.26
TOTAL DISTRIBUTION EXPENSE	855,057.60	875,509.02	6,498,389.49	5,728,756.47
CUSTOMER ACCOUNTS				
2-401-9010 SUPERVISION-CUSTOMER ACCOUNTING AND COLLE	3,458.50	2,934.95	28,259.18	16,344.55
2-401-9020 METER READING	115,597.49	103,236.63	673,434.47	617,335.56
2-401-9030 CUSTOMERS CONTRACTS AND ORDERS	444,528.58	377,264.77	2,359,820.85	2,145,510.67
2-401-9040 UNCOLLECTIBLE ACCOUNTS	50,049.46	46,479.07	619,871.28	719,377.92
TOTAL CUSTOMER ACCOUNTS	613,634.03	529,915.42	3,681,385.78	3,498,568.70
SALES				
2-401-9110 SUPERVISION-SALES	0.00	0.00	0.00	0.00
2-401-9120 DEMONSTRATION AND SELLING EXPENSES	2,482.40	970.07	10,486.58	7,978.92
2-401-9130 ADVERTISING	91.64	62.86	501.21	423.98
2-401-9160 MISCELLANEOUS SALES EXPENSES	19,247.94	22,343.71	163,159.25	160,011.00
TOTAL SALES	21,821.98	23,376.64	174,147.04	168,413.90
ADMINISTRATIVE & GENERAL				
2-401-9200 ADMINISTRATIVE AND GENERAL SALARIES	260,991.30	260,334.39	1,640,303.64	1,643,921.79
2-401-9210 OFFICE SUPPLIES AND EXPENSES	144,938.57	56,313.17	539,114.11	356,356.71
2-401-9220 ADMINISTRATIVE EXPENSE-TRANSFERRED-CREDIT	6,927.67	20,253.65	277,574.34	205,653.89
2-401-9230 OUTSIDE SERVICES EMPLOYED	60,343.35	33,264.38	320,663.48	406,359.20
2-401-9240 PROPERTY INSURANCE	5,745.25	4,467.18	39,530.06	34,069.99
2-401-9250 INJURIES AND DAMAGES	61,955.51	79,551.35	617,100.50	839,834.59
2-401-9260 EMPLOYEE PENSIONS AND BENEFITS	438,719.20	574,387.14	2,638,142.39	3,548,800.30
2-401-9300 MISCELLANEOUS GENERAL EXPENSES	205,851.42	132,774.96	757,553.62	689,916.70
2-401-9310 RENTS-MISCELLANEOUS	74,452.35	74,452.35	446,292.50	446,688.50
TOTAL ADMINISTRATIVE & GENERAL	1,246,069.28	1,195,291.27	6,721,125.96	7,760,293.89
CUSTOMER SERVICE & INFO				
2-401-9070 SUPERVISION-CUSTOMER SERVICE AND INFORMAT	5,694.71	7,023.58	39,894.06	38,529.75
2-401-9080 CUSTOMER ASSISTANCE EXPENSE	4,551.81	18,492.08	76,564.39	115,006.43
2-401-9090 INFORMATIONAL AND INSTRUCTIONAL ADVERTISI	2,487.91	3,068.87	19,169.07	16,452.22
2-401-9100 MISCELLANEOUS CUSTOMER SERVICE AND INFORM	14,881.79	13,372.54	122,609.06	109,855.62
TOTAL CUSTOMER SERVICE & INFO	18,512.60	41,957.07	258,236.58	279,841.02
TOTAL OPERATIONS EXPENSE	9,218,435.47	6,567,277.35	80,956,544.22	95,867,411.49
MAINTENANCE EXPENSE				

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
GAS DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
PRODUCTION				
2-402-7840 MAINTENANCE SUPERVISION AND ENGINEERING---	0.00	0.00	0.00	0.00
2-402-7850 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	0.00	0.00	0.00	0.00
2-402-7860 MAINTENANCE OF EXTRACTION AND REFINING EQ	0.00	0.00	0.00	0.00
2-402-7910 MAINTENANCE OF OTHER EQUIPMENT-----	175.87	117.84	1,016.72	1,526.15
2-402-8430 MAINTENANCE SUPERVISION AND ENGINEERING---	6,125.56	6,336.93	35,821.72	33,029.17
2-402-8440 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	9.05	0.00	603.14	161.69
2-402-8450 MAINTENANCE OF HOLDERS-----	0.00	0.00	1,740.32	29,027.24
2-402-8460 MAINTENANCE OF OTHER EQUIPMENT-----	35,693.76	12,864.53	147,862.15	44,295.37
TOTAL PRODUCTION	42,004.24	19,319.30	187,144.05	108,039.62
DISTRIBUTION				
2-402-8850 MAINTENANCE SUPERVISION AND ENGINEERING---	14,521.39	15,960.57	93,453.00	83,410.93
2-402-8860 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	110.46	6.88	559.99	319.18
2-402-8870 MAINTENANCE OF MAINS-----	117,174.98	156,575.31	931,381.05	1,289,877.88
2-402-8890 MEASURING AND REGULATING EQUIPMENT EXPENS	20,484.55	32,603.90	120,328.57	130,295.92
2-402-8900 MEASURING AND REGULATING EQUIPMENT EXPENS	10,893.29	15,964.20	73,223.25	71,878.05
2-402-8910 MEASURING AND REGULATING EQUIPMENT EXPENS	1,026.09	734.62	6,960.07	4,920.33
2-402-8920 MAINTENANCE OF SERVICES-----	81,734.09	43,034.21	427,896.94	418,653.71
2-402-8930 MAINTENANCE OF METERS AND HOUSE REGULATOR	119,336.89	125,590.50	568,036.46	647,505.94
TOTAL DISTRIBUTION	365,281.74	390,470.19	2,221,839.33	2,646,861.94
ADMINISTRATIVE & GENERAL				
2-402-9320 MAINTENANCE OF GENERAL PLANT	146,770.02	115,932.07	706,046.12	614,736.23
TOTAL ADMINISTRATIVE & GENERAL	146,770.02	115,932.07	706,046.12	614,736.23
TOTAL MAINTENANCE EXPENSE	554,056.00	525,721.56	3,115,029.50	3,369,637.79
OTHER EXPENSES				
DEPRECIATION				
2-403-0001 DEPRECIATION EXPENSE				
TOTAL DEPRECIATION	779,088.68	728,052.50	4,636,629.98	4,348,045.23
AMORTIZATION OF BAYOU GALION				
2-405-0100 AMORTIZATION OF BAYOU GALION				
TOTAL AMORTIZATION OF BAYOU GALION	0.00	0.00	0.00	0.00
AMORTIZATION OF COAL GAS				
2-405-0200 AMORTIZATION OF COAL GAS PLANT				
TOTAL AMORTIZATION OF COAL GAS	0.00	0.00	0.00	0.00
AMORTIZATION OF R.I.S.E.				
2-405-0300 AMORTIZATION OF R.I.S.E. DEVELOPMENT COST				
TOTAL AMORTIZATION OF R.I.S.E.	0.00	0.00	0.00	0.00
PAYMENT IN LIEU OF TAXES				
2-408-0100 TAXES-OTHER THAN INCOME TAXES				
TOTAL PAYMENT IN LIEU OF TAXES	166,769.80	166,769.80	1,000,618.80	1,000,618.80
FICA TAXES				

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
GAS DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
2-408-1000 TAXES-FICA	15,590.86	14,207.85	105,807.94	85,147.36
TOTAL FICA TAXES	15,590.86	14,207.85	105,807.94	85,147.36
TOTAL OTHER EXPENSES	961,449.34	909,030.15	5,743,056.72	5,433,811.39
TOTAL OPERATING EXPENSES	10,733,940.81	8,002,029.06	89,814,630.44	104,670,860.67
TOTAL OPERATING INCOME	1,422,584.41	387,890.98	28,297,263.65	27,095,125.30
OTHER INCOME				
2-415-0100 REVENUES FROM MERCHANDISING, JOBBING AND	3,517,759.00	195,731.40	4,158,989.27	565,522.34
2-416-0100 COSTS AND EXPENSES OF MERCHANDISING, JOBB	274,815.27	297,243.05	1,610,066.18	1,622,309.58
2-419-0200 INTEREST INCOME - MLGW INTEREST BEARING E	85.33	275.03	736.12	2,075.15
2-419-1000 REVENUES FROM SINKING AND OTHER FUNDS-INT	443,243.52	640,952.37	2,675,009.59	3,390,688.33
2-419-1100 REVENUES FROM COMMON TRANSPORTATION EQUIP	32,879.12	35,247.91	202,473.60	219,092.76
2-419-2000 INTEREST INCOME - GAS MARGINS	8,365.73	9,447.29	49,746.14	55,844.10
2-421-0100 MISCELLANEOUS NON-OPERATING INCOME	219,025.50	286,560.10	1,461,688.65	1,594,352.74
TOTAL OTHER INCOME	3,946,542.93	870,971.05	6,938,577.19	4,205,265.84
TOTAL INCOME	2,523,958.52	1,258,862.03	35,235,840.84	31,300,391.14
2-431-0100 INTEREST EXPENSE-OTHER	0.00	0.00	0.00	0.00
2-431-0300 INTEREST EXPENSE-CUSTOMER DEPOSITS	0.00	1,313.00	0.00	10,351.00
TOTAL INTEREST EXPENSE-OTHER	0.00	1,313.00	0.00	10,351.00
TOTAL NI BEFORE DEBT EXP	2,523,958.52	1,257,549.03	35,235,840.84	31,290,040.14
DEBT EXPENSE				
AMORT-DEBT DISC & EXP				
2-428-8400 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
TOTAL AMORT-DEBT DISC & EXP	0.00	0.00	0.00	0.00
INT EXP-COMMERCIAL PAPER				
TOTAL INT EXP-COMMERCIAL PAPER	0.00	0.00	0.00	0.00
INT EXP-LONG TERM DEBT				
2-427-8400 INTEREST ON LONG TERM DEBT-SERIES 1984-RE	0.00	0.00	0.00	0.00
TOTAL INT EXP-LONG TERM DEBT	0.00	0.00	0.00	0.00
TOTAL DEBT EXPENSE	0.00	0.00	0.00	0.00
TOTAL NI AFTER DEBT EXP	2,523,958.52	1,257,549.03	35,235,840.84	31,290,040.14
DIVIDENDS TO CITY				
2-216-1000 ACCUMULATED NET REVENUES - DIVIDENDS TO C	699,768.90	699,768.90	4,198,613.40	4,198,613.40
TOTAL DIVIDENDS TO CITY	699,768.90	699,768.90	4,198,613.40	4,198,613.40
TOTAL NI AFTER DIVIDENDS	1,824,189.62	557,780.13	31,037,227.44	27,091,426.74

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
WATER DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
TOTAL NI AFTER EXTRAORDINARY INCOME	0.00	0.00	0.00	0.00
EXTRAORDINARY INCOME				
3-434-0100 EXTRAORDINARY INCOME ITEM	0.00	0.00	0.00	0.00
TOTAL EXTRAORDINARY INCOME	0.00	0.00	0.00	0.00
OPERATING REVENUE				
WATER SALES REVENUE				
3-400-0100 WATER SALES REVENUE	5,056,952.53	5,066,501.47	25,000,875.74	24,995,472.56
TOTAL WATER SALES REVENUE	5,056,952.53	5,066,501.47	25,000,875.74	24,995,472.56
FORFEITED DISCOUNTS				
3-400-0200 FORFEITED DISCOUNTS	58,917.44	59,880.84	356,259.72	374,299.23
TOTAL FORFEITED DISCOUNTS	58,917.44	59,880.84	356,259.72	374,299.23
MISC SERVICE REVENUE				
3-400-0300 MISCELLANEOUS SERVICE REVENUE	84,087.88	51,722.03	610,954.89	333,573.35
TOTAL MISC SERVICE REVENUE	84,087.88	51,722.03	610,954.89	333,573.35
RENT FROM WATER PROPERTY				
3-400-0400 RENT FROM WATER PROPERTY	150,620.88	150,620.88	903,725.28	903,725.28
TOTAL RENT FROM WATER PROPERTY	150,620.88	150,620.88	903,725.28	903,725.28
OTHER WATER REVENUE				
3-400-0500 OTHER WATER REVENUE	13,334.99	56,239.87	28,441.48	21,181.93
TOTAL OTHER WATER REVENUE	13,334.99	56,239.87	28,441.48	21,181.93
TOTAL OPERATING REVENUE	5,363,913.72	5,272,485.35	26,900,257.11	26,585,888.49
OPERATING EXPENSES				
OPERATIONS EXPENSE				
PRODUCTION				
3-401-6000 OPERATION SUPERVISION AND ENGINEERING	0.00	0.00	0.00	0.00
3-401-6010 OPERATION LABOR AND EXPENSES	6,662.72	11,676.13	44,353.70	49,786.43
3-401-6030 MISCELLANEOUS EXPENSE	16,921.86	34,297.24	191,798.15	268,604.10
3-401-6040 RENTS	0.00	0.00	0.00	0.00
3-401-6200 OPERATION SUPERVISION AND ENGINEERING	13,314.43	14,214.22	85,884.21	76,671.58
3-401-6210 FUEL FOR POWER PRODUCTION	0.00	0.00	0.00	0.00
3-401-6220 POWER PRODUCTION LABOR AND EXPENSES	0.00	0.00	0.00	37.70
3-401-6230 FUEL OR POWER PURCHASED FOR PUMPING	545,495.41	586,506.30	2,626,986.64	2,586,888.75
3-401-6240 PUMPING LABOR AND EXPENSES	14,424.36	10,467.92	81,209.26	57,415.98
3-401-6260 MISCELLANEOUS EXPENSE	40,043.96	50,417.65	332,832.25	333,170.85
3-401-6270 RENTS	0.00	0.00	0.00	0.00
3-401-6400 OPERATION SUPERVISION AND ENGINEERING	3,631.34	3,876.96	23,422.88	20,911.42
3-401-6410 CHEMICALS	105,254.37	47,888.08	345,824.98	221,746.11
3-401-6420 OPERATION LABOR AND EXPENSES	108,565.30	67,573.09	449,858.23	358,189.08
3-401-6430 MISCELLANEOUS	3,687.72	3,173.46	12,804.93	11,845.62
3-401-6440 RENTS	0.00	0.00	0.00	0.00
TOTAL PRODUCTION	858,001.47	830,091.05	4,194,975.23	3,985,267.62

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
WATER DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
DISTRIBUTION				
3-401-6600 OPERATION SUPERVISION AND ENGINEERING-----				
3-401-6610 STORAGE FACILITIES	43,357.98	64,295.33	430,478.34	431,795.81
3-401-6610 TRANSMISSION AND DISTRIBUTION LINES	1,559.64	417.08	40,711.20	2,637.27
3-401-6620 METER EXPENSES	70,036.78	78,788.66	316,390.55	336,808.91
3-401-6630 CUSTOMER INSTALLATIONS	69,949.67	40,775.14	180,704.03	46,424.78
3-401-6640 MISCELLANEOUS EXPENSE-----	181,188.74	161,759.69	1,172,725.53	988,333.79
3-401-6650 RENTS	80,825.11	111,248.53	845,698.96	845,272.74
3-401-6660 RENTS	0.00	0.00	0.00	0.00
TOTAL DISTRIBUTION	307,018.58	457,284.43	2,986,708.61	2,651,273.30
CUSTOMER ACCOUNTS				
3-401-9010 SUPERVISION-CUSTOMER ACCOUNTING AND COLLE				
3-401-9020 METER READING	2,701.85	2,292.96	22,077.50	12,769.06
3-401-9030 CUSTOMER CONTRACTS AND ORDERS	80,626.48	73,875.27	476,098.28	438,713.22
3-401-9040 UNCOLLECTIBLE ACCOUNTS	308,844.16	253,143.36	1,624,672.08	1,457,029.76
3-401-9040 UNCOLLECTIBLE ACCOUNTS	31,876.07	31,989.94	156,099.47	156,276.27
TOTAL CUSTOMER ACCOUNTS	424,048.56	361,301.53	2,278,947.33	2,064,788.31
SALES				
3-401-9100 SALES EXPENSE	4,783.22	4,348.24	33,509.54	30,264.96
3-401-9110 SUPERVISION-SALES	0.00	0.00	0.00	0.00
3-401-9120 DEMONSTRATIONS AND SELLING	1,124.28	758.13	6,862.23	5,357.33
3-401-9130 ADVERTISING	54.32	37.30	297.13	251.60
3-401-9160 MISCELLANEOUS SALES EXPENSES	16,033.67	18,673.01	135,639.28	132,637.67
TOTAL SALES	21,995.49	23,816.68	176,308.18	168,511.56
ADMINISTRATIVE & GENERAL				
3-401-9200 ADMINISTRATIVE AND GENERAL SALARIES	175,182.06	171,049.84	1,090,119.58	1,108,904.62
3-401-9210 OFFICE SUPPLIES AND EXPENSES	26,139.87	35,666.20	205,144.44	279,859.64
3-401-9220 ADMINISTRATIVE EXPENSE-TRANSFERRED-CREDIT	18,801.86	25,378.13	119,520.13	137,687.11
3-401-9230 OUTSIDE SERVICES EMPLOYED	15,825.14	9,878.37	86,727.83	66,376.50
3-401-9240 PROPERTY INSURANCE	14,929.95	8,559.36	92,544.21	79,628.04
3-401-9250 INJURIES AND DAMAGES	93,570.26	98,092.97	563,746.81	780,648.41
3-401-9260 EMPLOYEE PENSIONS AND BENEFITS	227,308.40	369,637.57	1,572,607.93	2,176,409.98
3-401-9300 MISCELLANEOUS GENERAL EXPENSES	184,492.98	161,398.74	873,708.13	791,204.03
3-401-9310 RENTS-MISCELLANEOUS	48,483.89	48,483.89	290,573.96	290,861.96
TOTAL ADMINISTRATIVE & GENERAL	767,130.69	877,388.81	4,655,652.76	5,436,206.07
CUSTOMER SERVICE & INFO				
3-401-9070 SUPERVISION-CUSTOMER SERVICE AND INFORMAT	4,449.01	5,487.10	31,167.26	30,101.45
3-401-9080 CUSTOMER ASSISTANCE	12,417.16	9,615.25	34,376.24	71,977.03
3-401-9090 INFORMATIONAL AND INSTRUCTIONAL ADVERTISI	4,341.30	6,481.79	35,076.74	32,124.23
TOTAL CUSTOMER SERVICE & INFO	3,626.85	21,584.14	100,620.24	134,202.71
TOTAL OPERATIONS EXPENSE	2,374,567.94	2,571,466.64	14,393,212.35	14,440,249.57
MAINTENANCE EXPENSE				
PRODUCTION				
3-402-6100 MAINTENANCE SUPERVISION AND ENGINEERING--	0.00	0.00	0.00	0.00
3-402-6110 MAINTENANCE OF STRUCTURES-----	0.00	0.00	0.00	1,505.74
3-402-6120 MAINTENANCE OF COLLECTING CONDUIT	0.00	0.00	0.00	0.00

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
WATER DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
3-402-6140 MAINTENANCE OF WELLS	18,191.69	26,277.92	137,982.05	164,939.32
3-402-6170 MAINTENANCE OF OBSERVATION WELLS	0.00	0.00	0.00	0.00
3-402-6300 MAINTENANCE OF SUPERVISION AND ENGINEERING---	3,631.34	3,876.96	23,422.88	20,911.42
3-402-6310 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	127.51	31.01	392.66	407.20
3-402-6320 MAINTENANCE OF POWER PRODUCTION EQUIPMENT	0.00	0.00	0.00	0.00
3-402-6330 MAINTENANCE OF PUMPING EQUIPMENT	36,710.46	52,005.80	297,084.28	271,294.18
3-402-6500 MAINTENANCE OF SUPERVISION AND ENGINEERING--	3,631.34	3,876.96	23,422.88	20,911.42
3-402-6510 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	0.00	0.00	0.00	0.00
3-402-6520 MAINTENANCE OF WATER TREATMENT EQUIPMENT	39,230.81	31,002.61	186,925.06	154,790.87
TOTAL PRODUCTION	101,523.15	117,071.26	669,229.81	634,760.15
DISTRIBUTION				
3-402-6700 MAINTENANCE SUPERVISION AND ENGINEERING--	582.02	1,055.58	2,871.74	4,881.15
3-402-6710 MAINTENANCE OF STRUCTURES AND IMPROVEMENT	0.00	0.00	20.66	0.00
3-402-6730 MAINTENANCE OF TRANSMISSION AND DISTRIBUT	114,045.62	296,694.40	808,437.79	772,363.25
3-402-6750 MAINTENANCE OF SERVICES	103,876.78	102,641.14	354,648.03	203,225.62
3-402-6760 MAINTENANCE OF METERS	66,456.80	45,943.50	378,795.40	244,772.44
3-402-6770 MAINTENANCE OF HYDRANTS	15,878.61	18,114.21	99,251.85	75,990.82
3-402-6780 MAINTENANCE OF MISCELLANEOUS PLANT	895.75	442.31	1,308.84	23,753.78
TOTAL DISTRIBUTION	299,944.08	464,006.52	1,642,716.53	1,277,479.50
ADMINISTRATIVE & GENERAL				
3-402-9320 MAINTENANCE OF GENERAL PLANT	90,984.18	75,577.74	455,697.01	412,009.51
TOTAL ADMINISTRATIVE & GENERAL	90,984.18	75,577.74	455,697.01	412,009.51
TOTAL MAINTENANCE EXPENSE	492,451.41	656,655.52	2,767,643.35	2,324,249.16
OTHER EXPENSES				
DEPRECIATION				
3-403-0001 DEPRECIATION EXPENSE	534,225.29	544,254.90	3,195,765.98	3,240,454.28
TOTAL DEPRECIATION	534,225.29	544,254.90	3,195,765.98	3,240,454.28
AMORTIZATION OF R.I.S.E.				
3-405-0300 AMORTIZATION OF R.I.S.E. DEVELOPMENT COS	0.00	0.00	0.00	0.00
TOTAL AMORTIZATION OF R.I.S.E.	0.00	0.00	0.00	0.00
FICA TAXES				
3-408-1000 TAXES - FICA	9,239.03	8,419.47	62,701.02	50,457.68
TOTAL FICA TAXES	9,239.03	8,419.47	62,701.02	50,457.68
TOTAL OTHER EXPENSES	543,464.32	552,674.37	3,258,467.00	3,290,911.96
TOTAL OPERATING EXPENSES	3,410,483.67	3,780,796.53	20,419,322.70	20,055,410.69
TOTAL OPERATING INCOME	1,953,430.05	1,491,688.82	6,480,934.41	6,530,477.80
OTHER INCOME				
OTHER INCOME				
3-419-1000 REVENUES FROM SINKING AND OTHER FUNDS-INT	210,863.00	358,219.73	1,597,304.10	2,252,988.52
3-421-0100 MISCELLANEOUS NON OPERATING INCOME	18,964.38	60,373.58	118,034.96	114,456.29
TOTAL OTHER INCOME	229,827.38	418,593.31	1,715,339.06	2,367,444.81
TOTAL OTHER INCOME	229,827.38	418,593.31	1,715,339.06	2,367,444.81
TOTAL INCOME	2,183,257.43	1,910,282.13	8,196,273.47	8,897,922.61

MEMPHIS LIGHT, GAS AND WATER DIVISION
STATEMENT OF INCOME & EXPENSES
WATER DIVISION
JUNE 30, 1999

DESCRIPTION	CURRENT MONTH		YEAR TO DATE	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
INTEREST EXPENSE-OTHER				
3-431-0100 INTEREST EXPENSE-OTHER	0.00	0.00	0.00	0.00
3-431-0300 INTEREST EXPENSE-CUSTOMER DEPOSITS	0.00	778.00	0.00	6,134.00
TOTAL INTEREST EXPENSE-OTHER	0.00	778.00	0.00	6,134.00
TOTAL NI BEFORE DEBT EXP	2,183,257.43-	1,909,504.13-	8,196,273.47-	8,891,788.61-
DEBT EXPENSE				
INT EXP-LONG TERM DEBT				
3-427-0500 INTEREST ON BOND ANTICIPATION NOTES-SERIE	0.00	0.00	0.00	0.00
3-427-1700 INTEREST ON LONG TERM DEBT-SEMSUD BONDS	0.00	218.75	658.25	1,312.50
3-427-1800 INTEREST ON LONG TERM DEBT-RUD BONDS	0.00	0.00	0.00	0.00
3-427-7100 INTEREST ON LONG TERM DEBT-SERIES 1971-RE	0.00	0.00	0.00	0.00
3-427-7110 INTEREST ON LONG TERM DEBT-SERIES 1971-RE	0.00	0.00	0.00	0.00
3-427-7600 INTEREST ON LONG TERM DEBT-SERIES 1976-RE	0.00	0.00	0.00	0.00
3-427-8500 INTEREST ON LONG TERM DEBT-SERIES 1985-RE	0.00	0.00	0.00	0.00
3-427-8600 INTEREST ON LONG TERM DEBT-SERIES 1986-RE	0.00	0.00	0.00	0.00
3-427-8900 INTEREST ON LONG TERM DEBT-SERIES 1989-RE	0.00	0.00	0.00	0.00
3-427-9200 INTEREST ON LONG TERM DEBT - REVENUE BOND	83,363.00	5,922.00	500,178.00	35,532.00
3-427-9210 INTEREST ON LONG TERM DEBT-SERIES 1992-A	16,451.00	92,153.00	98,706.00	552,918.00
3-427-9300 INTEREST ON LONG TERM DEBT - REVENUE REF	106,548.00	76,278.00	639,288.00	457,668.00
3-427-9800 INTEREST ON LONG TERM DEBT - REVENUE REF	49,809.00	112,451.00	298,854.00	674,706.00
TOTAL INT EXP-LONG TERM DEBT	256,171.00	287,022.75	1,537,682.25	1,722,136.50
INT EXP-COMMERCIAL PAPER				
TOTAL INT EXP-COMMERCIAL PAPER	0.00	0.00	0.00	0.00
AMORT-DEBT DISC & EXP				
3-428-0100 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	15.37	29.00	92.22	174.00
3-428-0200 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-0500 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-7100 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-7600 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-8500 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-8600 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	0.00	0.00	0.00	0.00
3-428-8900 AMORT. OF DEBT DISC & EXP - SERIES 1989	606.00	606.00	3,636.00	3,636.00
3-428-9200 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	3,125.83	3,455.25	18,754.98	20,731.50
3-428-9210 AMORTIZATION OF DEBT DISC & EXP-SERIES 19	3,925.92	4,103.25	23,555.52	24,619.50
3-428-9300 AMORTIZATION OF DEBT DISCOUNT & EXPENSE -	5,014.83	5,275.00	30,088.98	31,650.00
3-428-9800 AMORTIZATION OF DEBT DISCOUNT & EXPENSE -	0.00	0.00	0.00	0.00
TOTAL AMORT-DEBT DISC & EXP	12,687.95	13,468.50	76,127.70	80,811.00
INT EXP-COMPUTER				
TOTAL INT EXP-COMPUTER	0.00	0.00	0.00	0.00
TOTAL DEBT EXPENSE	268,858.95	300,491.25	1,613,809.95	1,802,947.50
TOTAL NI AFTER EXTRAORDINARY INCOME	1,914,398.48-	1,609,012.88-	6,582,463.52-	7,088,841.11-

EXHIBIT J

[Confidential – filed under seal]

EXHIBIT K

**MEMPHIS NETWORKX, LLC
INTRALATA TOLL DIALING PARITY PLAN**

PURPOSE

The purposes of this IntraLATA Toll Dialing Parity Plan (the "Plan") is to provide a process that will give end user customers of Memphis Networkx, LLC ("Memphis Networkx") the opportunity to designate a carrier for their intraLATA toll call traffic. Under the Plan, intraLATA toll calls will automatically be directed to the designated carrier without the customer having to dial an access code.

IMPLEMENTATION SCHEDULE

Upon approval of its Application and Joint Petition by the Tennessee Regulatory Authority ("TRA"), Memphis Networkx will begin constructing facilities in Tennessee for its facilities-based local exchange services. Memphis Networkx will initially provide facilities-based service in the Memphis LATA (exchange No. 468). It will take approximately 5 months after TRA approval to construct facilities and begin service. Memphis Networkx plans to negotiate an interconnection agreement with Bell South Telecommunications, Inc. ("Bell South") which will be filed with the TRA upon approval of Memphis Networkx's application for authority. Thus, intraLATA toll dialing parity will be provided by Memphis Networkx in the Memphis LATA at the same time facilities-based local service begins. Memphis Networkx anticipates that such service will begin within 30 days of completion of facilities, subject to TRA approval of the interconnection agreement. To the extent that Memphis Networkx expands its facilities-based service or provides reseller services, it will provide intraLATA dialing parity in the respective LATAs where such local exchange services are provided.

CARRIER SELECTION PROCEDURES

Memphis Networkx will deploy the full 2 PIC (Primary Interexchange Carrier) carrier selection methodology, thus enabling customers to pre-subscribe to either the same or two different carriers for their intraLATA and interLATA service.

Appropriate tariffs will be filed in accordance with this Plan.

Memphis Networkx will offer customers the ability to access all participating carriers by dialing the appropriate access code (10XXX/101XXX).

CARRIER NOTIFICATION

Authorized interexchange and local exchange carriers will be notified of Memphis Networkx's Plan via letter at least 90 days prior to the proposed date for commencement of services by Memphis Networkx. Carriers should provide a list of exchanges in which they plan to offer intraLATA toll at least 60 days in advance of Memphis Networkx's proposed date for commencement of service. Memphis Networkx will include the responding carriers that serve Memphis Networkx exchanges on the list of participating carriers that it provides to its customers. Authorized carriers

that receive their certification and enter the market after Memphis Networkx begins service will be added to the list of participating carriers within 30 days of notifying Memphis Networkx.

Interexchange carriers will have the option of offering intraLATA service only or intraLATA and interLATA service.

CUSTOMER NOTIFICATION/EDUCATION

Memphis Networkx has no existing customers. New customers will be notified of their opportunity to select an intraLATA toll carrier at the time they apply for service with Memphis Networkx. Customers who do not make an affirmative choice for an intraLATA toll carrier will not be automatically defaulted to a carrier. Such customers will be assigned a "No PIC" designation and will be required to dial 10XXX to place intraLATA toll calls until they choose a carrier.

There will be no charge for the initial PIC election for new customers. A \$5.00 PIC change charge will be incurred and billed to Memphis Networkx customers for each eligible line where a PIC change is made.

If a customer does not decide upon an intraLATA toll carrier at the time of order, Memphis Networkx will provide a 30-day grace period following placement of the customer's service order for the customer to select an intraLATA carrier without charge. Such a customer will be assigned a No PIC designation in the interim. If an intraLATA toll carrier is chosen after this 30-day period, Memphis Networkx will assess the \$5.00 PIC change charge as described above.

Memphis Networkx representatives will respond to customer inquiries about intraLATA carriers in a competitively neutral fashion. If a customer requests information on alternative carriers, a list of participating carriers will be provided to that customer by Memphis Networkx representatives.

Memphis Networkx representatives will process customer initiated PIC selections to Memphis Networkx or to an alternative intraLATA carrier. Carriers will have the option of allowing the Memphis Networkx representative to process PIC requests on their behalf.

If the intraLATA toll carrier selected by the customer permits Memphis Networkx to process orders on its behalf, Memphis Networkx will accept the PIC change request. If the customer selects an intraLATA toll carrier that does not allow Memphis Networkx to process PIC changes on its behalf, Memphis Networkx will provide the customer with the carrier's toll-free number (if provided by the carrier).

Memphis Networkx representatives will not discuss alternative carrier rates or services and will not provide customers with Carrier Identification Codes or access code dialing instructions.

ANTI-SLAMMING PROCEDURES

Memphis Networkx will establish policies for handling verification of change order disputes with intraLATA toll carriers that are consistent with the obligations imposed on local exchange carriers for resolving change order disputes between customers and interexchange carriers pursuant to TRA Rule 1220-4-2-.56.

If a Memphis Networkx customer denies requesting a change in intraLATA toll providers as submitted by an intraLATA carrier, and the intraLATA carrier is unable to produce a form of verification that is permitted by law, the intraLATA carrier will be assessed any PIC change charges previously charged to the customer and the PIC will be changed as per the customer's request. Any PIC charge related to the unauthorized change will be credited to the customer's account.

Alternative intraLATA toll carriers may submit PIC changes to Memphis Networkx via a fax/paper interface.

Memphis Networkx will process intraLATA PIC selections in the same manner and under the same intervals of time as interLATA PIC changes.

COST RECOVERY

Memphis Networkx's cost of providing intraLATA toll dialing parity will be imbedded in its initial tariffed rates which will be designed to recover the cost of all services. Since Memphis Networkx will not be adding dialing parity to an existing operation, a special cost recovery mechanism as contemplated by Federal Communications Commission Order 96-333, at Paragraph 95 is not applicable to Memphis Networkx.

ACCESS TO TELEPHONE NUMBERS, OPERATOR SERVICES, ETC.

Memphis Networkx will provide nondiscriminatory access to telephone numbers, operator services, directory and directory listings.

COMPLIANCE

Memphis Networkx will comply with the rules of the Federal Communications Commission and the Tennessee Regulatory Authority.

Dated:

EXHIBIT L

Small and Minority-Owned Telecommunications Business Participation Plan

Memphis Networx, LLC ("Memphis Networx") submits the following Small and Minority-Owned Telecommunications Business Participation Plan (the "Plan") in compliance with T.C.A. §65-5-212. Memphis Networx seeks to provide maximum practicable opportunity for Small and Minority-Owned businesses to compete on a fair and equitable basis for contracts and sub-contracts awarded by the company. For the purpose of this Plan, "Small and Minority-Owned Business" shall have the same meaning as defined in T.C.A. § 65-5-212, i.e., "Minority Business" means a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls the daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipt of less than four million dollars (\$4,000,000); and "Small Business" means a business with annual gross receipts of less than four million dollars (\$4,000,000). Memphis Networx is committed to identifying qualified businesses in these categories and encouraging their participation in the purchasing and contracting process. Moreover, Memphis Networx will award contracts to such qualified businesses to the extent reasonable and practicable.

Memphis Networx will designate a Diversity Officer who will have the responsibility of implementing the Small and Minority-Owned Telecommunications Business Participation Plan. Memphis Networx has designated the following individual as Diversity Officer:

Carlotta Maclin
Director of Operations
7555 Appling Center Drive
Memphis, Tennessee 38133-5069
Phone: (901) 213-5112

The Diversity Officer will have the following general duties:

1. Identifying, developing and maintaining lists of Small and Minority-Owned Businesses that are deemed eligible to be suppliers and contractors for Memphis Networkx. Memphis Networkx's outsourcing needs will vary as Memphis Networkx's operations evolve to meet its customers needs. Memphis Networkx anticipates using outside contractors for outside plant construction. Memphis Networkx will encourage Small and Minority-Owned telecommunications businesses to contact the Diversity Officer regarding their areas of expertise and Memphis Networkx will place the names of potential contractors on its list of potential sources for services and products. To further fulfill the function of identifying suppliers, contractors and sub-contractors, the Diversity Officer will: (1) join the Tennessee Minority Purchasing Council and the MidSouth Minority Business Council which will aid in the identification of local minority vendors; (2) identify potential vendors and service providers from lists on file with the Uniform Certification Agency (a consortium of local government entities in Shelby County), the Tennessee Department of Economic and Community Development and informal networking and referral sources; (3) search for qualified Small and Minority-Owned telecommunications businesses and concerns through local and national associations and minority supplier development councils, industry meetings and advertisements in industry and local publications. The Diversity Officer shall ensure that the appropriate source listings and services are properly utilized in support of the Plan.

2. Cultivating an awareness among such businesses as to any opportunities to develop business relations with Memphis Networkx. The Diversity Officer will cultivate and maintain relationships with minority, women's and small business trade associations and business development organizations in an effort to locate and qualify

businesses for participation in contracting opportunities. The Diversity Officer will attend or arrange for Memphis Networkx representatives to attend business opportunity workshops, minority business enterprise seminars and trade fairs for this purpose.

3. Inviting bids, or issuing requests for proposals, or otherwise soliciting offers from qualified entities to furnish specified goods or services. Among other things, the procurement request should be structured to permit Small and Minority-Owned Business concerns to participate to the maximum extent possible. This includes, to the greatest extent possible, arranging solicitations, time for preparation of bids, quantities, specifications, and delivery schedules so as to facilitate participation. On all purchase orders, the person requesting authorization will make a good faith effort to include at least one Small or Minority-Owned Business on every solicitation for products and services. In addition, Memphis Networkx will encourage large contractors that sub-contract Memphis Networkx's projects to utilize Small and Minority-Owned businesses as sub-contractors.

4. Provide advice and counsel for Small and Minority-Owned Business concerns. The Diversity Officer shall act as the company contact for suppliers interested in bidding on Memphis Networkx opportunities. The Diversity Officer shall also ensure that Memphis Networkx offers assistance and counseling to explain requests for quotations, progress payments; technical and quality assurance programs; advice on types of business typically being contracted and the mechanics of procurement requirements of quality expectations.

5. Ensuring the establishment and maintenance of records of solicitations and contract activity. Memphis Networkx will maintain records of its contract solicitations and awards so that it can monitor results achieved under the Plan. Memphis Networkx will allow the TRA access to such records in accordance with its regulatory authority.

6. **Paying contractors in a timely manner, pursuant to the terms of their contracts, and ensuring that large contractors establish procedures to ensure timely payment to sub-contractors that are Small and Minority-Owned Business concerns.** Memphis Networkx will strive to be sensitive to the cash flow concerns of Small and Minority-Owned Businesses and structure its contracts and practices with such businesses accordingly. In addition, Memphis Networkx will address this issue with large contractors in order to facilitate participation of Small and Minority-Owned Business in sub-contracts.

7. **Minority ownership interest in Memphis Networkx.** In accordance with Section 3.4 of the Operating Agreement of Memphis Networkx, each of the initial members of Memphis Networkx will negotiate in good faith to sell a portion of its financial rights in Memphis Networkx to one or more Minority Businesses within four years of the Approval Date as defined in the Operating Agreement.

As required by Tennessee law, Memphis Networkx will update its Plan annually.